

**CITY OF LONG BEACH**

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October 29, 2002

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
CaliforniaSUBJECT: Budget Evaluation Process (Citywide)DISCUSSION

On September 23, 2002, the City Council adopted the Fiscal Year 2003 (FY 03) Budget, which was balanced using \$43 million in one-time resources and \$3.3 million in budget reductions. City Council action further reduced expenditures by another \$2.4 million. Departments have been working with the Department of Financial Management in defining how these reductions will impact operations; that report will be provided to the Council in mid-November.

As has been communicated in the past, revenue losses resulting from a declining economy, coupled with the voter-approved Utility Users Tax reduction and increased costs, have resulted in an increasing gap between revenues and expenditures. While the current year's budget is balanced, there is an estimated \$50 million gap for FY 04. This estimate will vary based upon actual revenue received and by any Council-approved increases in program costs. Included in this estimated gap are an additional \$3 million in lost revenue associated with the expiration of the 1999 Community-Oriented Policing Services grant for 40 officers, and further reduction in the Utility Users Tax, which drops to 6 percent on October 1, 2003, resulting in an estimated revenue loss of \$7 million. Recent information received regarding the Public Employees Retirement System (PERS) investment performance is of great concern and will have a significant impact on future years' budgets. While actual costs will not be known until PERS' actuarial information is received, it is anticipated that the FY 05 budget will be seriously impacted.

Also, at the September 23<sup>rd</sup> City Council meeting, the Council was presented with a proposed Government Optimization Strategy. Included in the strategy was a budget evaluation process designed to provide a framework to provoke thoughtful review of options for addressing the gap between ongoing expenditures and revenues. During the past several weeks, staff from the City Manager's Office and Financial Management Department has been working with the Mayor's Budget Advisory Committee and department representatives to create a comprehensive approach that will provide a

fiscal strategy for the remainder of FY 03 and a Three-Year Financial Strategic Plan. It is anticipated that this work effort will be completed by December 31, 2002.

The Budget Evaluation Process is designed to be an inclusive process, with a goal of minimizing the impact of cost reductions on core services to the public. The process includes stakeholders throughout the City, including: the City Council, the Mayor's Budget Advisory Committee, community members and employees at all levels of the City organization. The following summarizes the many activities underway and the key stakeholder groups needed to address the fiscal challenges before us.

Spending Curtailment and Hiring Freeze – In an effort to generate all possible savings during the current fiscal year, restrictions have been put in place to limit spending to only items needed for service delivery. Spending restrictions include limiting travel and training, while all expenditures are being closely reviewed to ensure only essential purchases are made. Also, a strict hiring freeze has been implemented, with only positions essential to service delivery and safety being filled. The spending restrictions and hiring freeze will assist departments in meeting City Council-approved reductions to the current year's budget and generate savings to help balance the FY 04 budget. This is part of an evolving multi-year strategy to address the structural deficit. In addition, all positions kept vacant or under-filled with non-permanent staff will provide opportunities to restructure service delivery or reduce services while minimizing the impact on current employees.

Outside Review of City Salaries, Benefits, and Staffing Levels – To ensure an objective review of City salaries, benefits and staffing levels, an outside firm, specializing in compensation studies, will be asked to review current salaries and benefits and make an assessment of the comparability of the City's compensation plan to our relevant labor market. This is an important component of the budget review process. Allocating a portion of the savings generated from retiring employees to create a framework for future staffing and salary structures is a prudent use of these funds. The results of this important review will be incorporated into the Three-Year Financial Strategic Plan.

Mayor's Budget Advisory Committee – The Mayor's Budget Advisory Committee has been meeting several months reviewing the City budget, current operations and sources of revenue. As an independent group, the Committee is evaluating short-term cost-saving and revenue-raising measures, and long-term policy modifications. It is also reviewing prior recommendations, developed in the early 1990s, for relevancy and potential for implementation. The Budget Advisory Committee will be making recommendations to the City Council in January 2003.

City Council Input – Input from City Councilmembers and their aides will be sought during the next two months on ideas for cost saving or revenue enhancement. A separate form will be distributed for transmitting expenditure and revenue options. Staff will research these ideas and provide feedback as part of the financial strategy presented in January 2003.

Community Outreach and Service Prioritization - During the month of November, the City Council, the Mayor's Budget Advisory Committee and City staff will be undertaking an extensive, grassroots outreach effort to residents and businesses throughout the City. Presentations will be made at board, commission, advisory committee, and neighborhood and business association meetings between November 4 and November 23, 2002. A community survey, aimed at determining service priorities, will be undertaken during this time with survey distribution at public meetings, in local newspapers and on the City's website. It is also anticipated the survey will be distributed in the WAVE newsletter, that is mailed with each utility bill, during November. The survey will also be available for pick-up and drop-off at all City facilities. Also under consideration is a town hall meeting tentatively scheduled for November 23, 2002, in the Seaside Ballroom at the Convention Center. Input generated through this process will provide information regarding services that may be candidates for reorganization, curtailment or elimination, and where there might be opportunities for revenue enhancements. The community survey will be the first step in an ongoing dialogue with the community on the Financial Strategic Plan. Feedback will again be sought following submittal of the Plan in January 2003.

Department Service Prioritization - During the month of October, departments have been identifying all services and programs within their core mission areas and will be prioritizing these in terms of their core goals. For each program, key customers, cost per customer and potential for reducing costs will be analyzed. Following this analysis, City management will meet to review all input on service prioritization to determine possible areas for restructuring or curtailment.

Employee Input – The Acting City Manager has sent a memorandum to all City employees asking for their assistance in developing recommendations for reducing costs and improving the efficiency of City operations. Recognizing that employees are the most familiar with service delivery methods, their innovative ideas will be incorporated into the development of the Three-Year Financial Strategic Plan. Employees whose suggestions become a part of the financial strategy will receive recognition and may receive a monetary incentive depending upon the value of the savings generated.

Spending Reduction Options – Departments will develop options for reducing spending on City General Fund, Internal Service Funds, funds supporting the

General Fund, and Tideland Fund services. Spending reductions will attempt to minimize the impact on services to the public and will incorporate innovative service delivery methods aimed at improving efficiencies; consolidating overlapping services, phasing out obsolete programs, privatizing or contracting in services and, if necessary, curtailing or eliminating services. Each department is developing 10-, 20- and 30-percent reduction scenarios. Beginning in mid-November, Department Heads will meet to review the reduction scenarios and develop the Three-year strategy to address the gap between expenditures and revenues. The recommended fiscal strategy should be complete by the middle of December and forwarded to the Mayor's Budget Advisory Committee for an independent review and comment prior to being forwarded to the City Council in January 2003.

Revenue Development Options – Department Heads, Management Staff, and employees are also looking at opportunities for enhancing resources to support City services, including improved cost recovery, the possible sale of City assets, and the review of revenue generation options used in other cities.

During the past six weeks, three Council items with budget implications have been referred to the City Manager for further information. Councilwoman Richardson-Batts requested an update to the previous revenue-generating ideas report and Councilmembers Reyes Uranga and Lerch requested a report on potential resources available for unfunded Council priorities. In addition, in conjunction with the adoption of the Open Space and Recreation Element, a report was requested outlining funding alternatives for future Parks, Recreation, and Marine Department operations. It is recommended that the response to these three requests be incorporated into the financial strategy for FY 03 and the Three-year strategy.

The ambitious and inclusive efforts outlined above are important to developing a financial strategy that reflects the public's priorities concerning core City services. In addition, taking proactive and immediate steps to control spending and maintain position vacancies will allow us to rationally implement change over a three-year period of time, rather than cut critical services haphazardly in response to shrinking resources. It is essential that the City Council, the public and City staff come together in an honest dialogue to address the difficult issues facing our City. City Council input and support of these efforts will be crucial to our ultimate success.

TIMING CONSIDERATIONS

Action by the City Council is not time-critical.

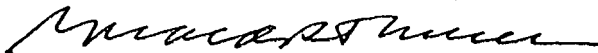
FISCAL IMPACT

Every effort is being made to minimize the cost of activities associated with the budget evaluation process. The cost associated with printing the community survey is estimated to be approximately \$10,000. The estimated cost of the compensation review is \$50,000, but the actual cost will not be known until a request for proposal process is undertaken. Savings from employee retirements will be utilized to fund these efforts, and no increase in appropriation is requested.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Refer this report to the Economic Development and Finance Committee.

Respectfully submitted,



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