



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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

September 3, 2013

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and discuss proposed Fiscal Year 2014 budgets for the following departments: Harbor Department, Water Department, Police Department and Fire Department; and

Receive supporting documentation into the record, conclude the public hearing and take the actions necessary to adopt the Fiscal Year 2014 budget as listed in Attachment A of this letter. (Citywide)

DISCUSSION

On August 1, 2013, the City Manager's Proposed Budget for Fiscal Year 2014 (FY 14) was delivered by the Mayor to the City Council and community with recommended amendments for consideration. Budget meetings were set for February 12, March 5, March 12, April 23, August 6, August 13, August 27, September 3 and September 10, along with nine Budget Oversight Committee (BOC) meetings and nine community meetings at which the FY 14 Proposed Budget was discussed. We are pleased to report that through the scheduled hearings, BOC and community meetings, presentations have been made by multiple City departments resulting in 27 separate opportunities for public feedback, deliberation and input.

At the conclusion of the hearings, the City Council will amend the proposed budget as it deems appropriate, and adopt the proposed budget as amended. Since the publication of the FY 14 Proposed Budget, updated estimates of revenue and expense, which address technical corrections as well as decisions made by elected offices, are listed by fund and department in Attachments B and C to this letter, respectively.

The Appropriations Ordinance officially adopts the FY 14 budget and authorizes expenditures in conformance with the adopted budget. To become effective October 1, 2013, this Ordinance must include a finding of emergency. Specific resolutions provide for approval of the budgets for the Harbor, Sewer, and Water funds, which are not in the Appropriations Ordinance and certain fee adjustments. Requests for approval include the FY 14 Capital Improvement Program; the Mayor's Recommendations; and the Budget Oversight Committee's Recommendations for the FY 14 Proposed Budget.

This matter was reviewed by City Attorney Charles Parkin on August 20, 2013.

TIMING CONSIDERATIONS

In accordance with the Long Beach City Charter, the FY 14 budget must be adopted by September 15, 2013. Should the City Council fail to adopt the budget by that date, the City Manager's FY 14 Proposed Budget shall be deemed the budget for the 2014 fiscal year. The Mayor has five calendar days from City Council adoption of the budget to use his veto authority. The City Council would then have until September 30, 2013, to override veto action by the Mayor with a two-thirds supermajority vote.

FISCAL IMPACT

The City Charter requires that the Appropriations Ordinance shall govern and control the expenditure and commitment amounts stated therein relating to the City's departments, offices and agencies during each fiscal year. The total FY 14 budget for all departments and funds is \$3,917,614,042, which comprises \$3,126,505,680 in new appropriation and \$791,108,362 in estimated carry-over from FY 13 for multi-year grants and projects.

The Appropriations Ordinance, included as Attachment A-14 to this letter, totals \$2,569,089,304 for all funds except Harbor, Sewer, and Water, and \$2,571,229,855 for all departments except Harbor and Water. The \$2,140,551 difference between funds and departments in the Appropriations Ordinance is due to general City indirect costs budgeted in the Department of Financial Management but charged to the Harbor, Water and Sewer funds, which are not included in the Appropriations Ordinance by fund.

The proposed Harbor, Water and Sewer fund budgets are in separate City Council resolutions included as Attachment A-1 and A-4 to this letter, respectively, and total \$1,142,757,770. The Board of Harbor Commissioners adopted the budget for the Harbor Department by minute order on June 17, 2013. The Board of Water Commissioners adopted the budget for the Water Department by resolution on June 20, 2013.

User fees and charges in the attached Master Fee and Charges Schedule (A-5) have been increased by the City Cost Index (CCI), a calculation of the increase in the City's cost over the prior fiscal year, except for those fees that are set using other criteria. In addition to the CCI-based fee changes, some fees have been added or adjusted due to a change in service or other bases. For details regarding these proposed new fees and non-CCI fee adjustments, please see the List of Proposed Fee Adjustments for FY 14 that has been incorporated as Exhibit C to the Master Fee and Charges Resolution.

Other requested City Council actions include approval of the FY 14 One-Year Capital Improvement Program (CIP) budget, which is contained in the Appropriations Ordinance. The Planning Commission, at its meeting of August 15, 2013, approved the CIP for FY 14 for conformance with the General Plan.

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The City Council is also requested to adopt the Resolution establishing the "Gann Appropriations Limit" (Limit) for general purpose expenditures. In November 1979, the voters of the State of California approved Proposition 4, also known as the "Gann Initiative." The Initiative places certain limits on the amount of tax revenue that can be appropriated each fiscal year. The Limit is based on actual appropriations during FY 79 and guards against overspending proceeds of taxes. Only those revenues which are considered as "proceeds of taxes" are subject to the Limit. The Limit is recalculated each fiscal year based on certain inflation and population factors provided by the State. The Proposed Budget includes tax revenue estimates that are at 40.94 percent of the 2013-2014 Appropriations Limit and, therefore, does not exceed the Limit. This calculation is reviewed by the City Auditor for conformance to the law.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

JG/RAG

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ATTACHMENTS

APPROVED:



PATRICK H. WEST
CITY MANAGER

List of Requested Fiscal Year 2014 Budget Adoption Actions

1. Adopt the Resolution approving the FY 14 budget for the Long Beach Harbor Department as adopted by the Board of Harbor Commissioners on June 17, 2013. (A-1)
2. Declare an emergency to exist. (A-2)
3. Declare the Ordinance approving the Resolution No. WD-1309 establishing the rates and charges for water and sewer service to all customers, as adopted by the Board of Water Commissioners on June 20, 2013, as an Emergency Ordinance, read, and adopted as read and laid over to the next regular meeting of the City Council for final reading. (A-3)
4. Adopt the Resolution approving the FY 14 budget of the Long Beach Water Department as adopted by the Board of Water Commissioners on June 20, 2013. (A-4)
5. Adopt the Resolution amending the master fee and charges schedule for specified City services for Citywide fees and charges for the City of Long Beach. (A-5)
6. Approve the FY 14 One-Year Capital Improvement Program. (A-6)
7. Adopt a motion approving the FY 14 budget for the Long Beach Housing Development Company in the amount of \$132,708. (A-7)
8. Adopt a motion approving the estimated transfer of \$18,373,000 from the Harbor Revenue Fund to the Tidelands Operating Fund. (A-8)
9. Adopt the Resolution establishing the "Gann Appropriations Limit" (Limit) for FY 14 pursuant to Article XIII (B) of the California Constitution. (A-9)
10. Adopt the Mayor's proposed budget recommendations, as amended, to the FY 14 Proposed Budget. (A-10)
11. Adopt the Budget Oversight Committee's proposed funding recommendations, as amended, to the FY 14 Proposed Budget. (A-11)
12. Adopt a motion amending the proposed FY 14 budget. (A-12)
13. Declare an emergency to exist. (A-13)
14. Declare the Appropriations Ordinance for FY 14, creating and establishing the funds of the Municipal Government and appropriating money to and authorizing expenditures from said funds and for said fiscal year as an Emergency Ordinance, read, and adopted as read and laid over to the next regular meeting of the City Council for final reading. (A-14)

FISCAL YEAR 2014 APPROPRIATIONS ORDINANCE BY FUND
(Does not include Harbor, Sewer, and Water)

<u>FUND</u>	<u>FY 14 PROPOSED EXPENDITURES</u>	<u>CHANGES</u>	<u>FY 13 ESTIMATED CARRYOVER*</u>	<u>FY 14 APPROPRIATION</u>
GENERAL FUND	437,992,069	3,695	-	437,995,764
GENERAL GRANTS FUND	6,741,136	-	20,047,376	26,788,513
POLICE & FIRE PUBLIC SAFETY OIL PROD ACT FUND	3,194,892	-	-	3,194,892
HEALTH FUND	37,646,108	-	29,288,235	66,934,343
PARKING & BUSINESS AREA IMPROVEMENT FUND	6,683,060	4,000	-	6,687,060
SPECIAL ADVERTISING & PROMOTION FUND	5,660,712	-	-	5,660,712
UPLAND OIL FUND	37,100,863	-	-	37,100,863
HOUSING DEVELOPMENT FUND	1,656,186	-	46,496,689	48,152,875
BELMONT SHORE PARKING METER FUND	456,145	-	-	456,145
BUSINESS ASSISTANCE FUND	652,287	-	1,272,028	1,924,315
COMMUNITY DEVELOPMENT GRANTS FUND	20,914,909	(1)	18,207,841	39,122,750
PARK DEVELOPMENT FUND	-	-	-	-
GASOLINE TAX STREET IMPROVEMENT FUND	18,549,773	-	31,181,247	49,731,020
TRANSPORTATION FUND	20,935,887	-	18,351,504	39,287,391
CAPITAL PROJECTS FUND	5,865,456	(897,258)	106,425,380	111,393,578
DEBT SERVICE FUND	9,474,085	-	-	9,474,085
CIVIC CENTER FUND	11,314,628	-	938,143	12,252,771
GENERAL SERVICES FUND	39,816,839	341,374	4,350,132	44,508,345
FLEET SERVICES FUND	30,232,786	-	1,489,072	31,721,857
INSURANCE FUND	40,355,842	-	139,683	40,495,524
EMPLOYEE BENEFITS FUND	223,381,494	-	-	223,381,494
TIDELANDS FUNDS	133,492,142	(4,170)	97,312,769	230,800,741
TIDELAND OIL REVENUE FUND	421,846,188	-	-	421,846,188
RESERVE FOR SUBSIDENCE	-	-	-	-
DEVELOPMENT SERVICES FUND	15,682,866	-	447,638	16,130,504
GAS FUND	105,051,881	-	6,353,022	111,404,904
GAS PREPAY FUND	39,938,547	-	-	39,938,547
AIRPORT FUND	42,404,709	-	31,340,672	73,745,380
REFUSE/RECYCLING FUND	44,775,686	-	458,961	45,234,647
SERRF FUND	52,492,647	-	-	52,492,647
SERRF JPA FUND	11,225,140	-	-	11,225,140
TOWING FUND	6,870,623	-	-	6,870,623
PARKING AUTHORITY FUND	-	-	-	-
HOUSING AUTHORITY FUND	81,853,207	-	(455,475)	81,397,732
SUCCESSOR AGENCY	66,337,804	-	173,815,640	240,153,444
CUPA FUND	1,563,122	-	21,389	1,584,511
TOTAL	1,982,159,719	(552,360)	587,481,945	2,569,089,304

*Carryover of multi-year grants and CIP funds.

FISCAL YEAR 2014 APPROPRIATIONS ORDINANCE BY DEPARTMENT
(Does not include Harbor and Water)

<u>DEPARTMENT</u>	<u>FY 14 PROPOSED EXPENDITURES</u>	<u>CHANGES</u>	<u>FY 13 ESTIMATED CARRYOVER*</u>	<u>FY 14 APPROPRIATION</u>
MAYOR AND COUNCIL	4,629,090	-	11,522,175	16,151,265
CITY ATTORNEY	8,971,418	-	-	8,971,418
CITY AUDITOR	2,810,382	-	-	2,810,382
CITY CLERK	2,577,598	-	-	2,577,598
CITY MANAGER	23,779,184	-	69,684,549	93,463,734
CITY PROSECUTOR	4,701,396	-	35,000	4,736,396
CIVIL SERVICE	2,005,846	-	-	2,005,846
AIRPORT	41,974,235	-	29,377,301	71,351,537
DISASTER PREPAREDNESS & EMERGENCY COMMUNICATIONS	1,019,688	-	-	1,019,688
DEVELOPMENT SERVICES	97,341,066	(1)	260,801,993	358,143,058
FINANCIAL MANAGEMENT**	500,137,051	(112,588)	15,472,145	515,496,608
FIRE	94,347,255	-	3,185,150	97,532,404
HEALTH AND HUMAN SERVICES	119,905,125	-	29,391,110	149,296,235
HUMAN RESOURCES	21,022,670	-	3,654,787	24,677,457
LIBRARY SERVICES	12,626,334	-	-	12,626,334
LONG BEACH GAS AND OIL	606,867,721	-	6,164,245	613,031,967
PARKS, RECREATION AND MARINE	52,293,834	12,683	22,454,132	74,760,648
POLICE	203,259,384	-	13,222,086	216,481,470
PUBLIC WORKS	146,003,975	(793,828)	118,167,138	263,377,285
TECHNOLOGY SERVICES	38,027,019	341,374	4,350,133	42,718,526
TOTAL	1,984,300,270	(552,360)	587,481,945	2,571,229,855

*Carryover of multi-year grants and CIP funds.

**Department of Financial Management includes internal service charges that are contained in the resolutions of the Harbor, Water, and Sewer funds for accounting, budgeting and treasury functions, and other citywide activities such as debt service.



Mayor's Budget Recommendations

Fiscal Year 2014

Presented August 1, 2013



August 1, 2013

Members of the City Council:

I hereby transmit to you the 2014 fiscal year budget, prepared by the City Manager with my recommendations attached. The Long Beach City Charter requires that the budget be delivered with the Mayor's recommendations by August 2nd and as usual we have fully complied with the Charter provisions.

The City management is to be commended for a job well done, not only on this year's budget but also during the past six years. We have weathered the largest financial crisis in nearly 75 years. Since 2007, we have reduced the City's General Fund by \$134 million, removed 786 positions, reorganized our structure to be more efficient, and instituted comprehensive pension reform for city employees.

We have achieved all this while still providing essential services and experiencing generational low crime levels. Indeed, we are now in a position to fund both a fire and police academy to replenish our public safety personnel. We have improved the environment at the Port, dramatically improved water quality on our beaches, helped introduce technical training in our schools, resurfaced or repaved 200 miles of streets, reformed our building permit process to be user friendly, understandable and less expensive, and added several parks to the City.

We have performed all of this without tax increases and by living within our means. Sound fiscal policies have been a large part of our success and will help us build even greater success in the future.

One very successful program that will not be available to us is Redevelopment. It has been responsible for vast improvement in our City. Indeed, much of the rebirth of parts of Long Beach is the result of Redevelopment. It produced over \$100 million a year for economic development and blight removal and, as you know, it has been terminated by the State. The testimony of Redevelopment's success is that the end of the program will bring additional ongoing property tax revenue to our city; revenue that only exists because Redevelopment increased property values and hence property tax. We will not have this tool for our future and will need to find another path to build areas of our City that need the incentive Redevelopment provided.

I'm proud to say that the budget I deliver to you is structurally balanced and, if my recommendations are followed, will be essentially balanced for the next three fiscal years. In addition, this year we will have \$57 million to spend on capital items, infrastructure like streets, parks, roads, and management systems that will improve our City in the future.

None of this capital spending would be possible without following our fiscal policies for one-time revenue and being prudent with oil revenues. Our policy has been to use one-time revenue, revenue that is unlikely to reoccur in future years, for discrete, one-time expenditures. Thus, we spend the windfall one-time revenue from Redevelopment dissolution, oil revenue and other sources on infrastructure, facilities, finance systems or other capital items that are purchased one-time and are unlikely to have to be replaced anytime in the near future.

Oil revenues are a little different in that they are likely to occur each year but are very volatile. In 2008 we saw oil drop from \$125 to around \$25 in less than six months, causing the City to make cuts to "make up" for the \$6 million "loss." To hedge the volatility in oil, we select a price (\$70) and treat all revenue above that price as "one-time"; all revenue below the price is considered ongoing. This is a prudent and wise practice. We need to be conservative here because we don't want to be forced to cut programs mid-stream or create future deficits.

Every year, we debate this issue. There are those who want to treat more of our oil revenue as ongoing and therefore available to fund programs. Let us end this silly debate. We cannot treat oil like we treat property or utility users tax. Those revenue sources are far more stable and any volatility can be hedged with our reserves. In order for property tax revenue to be as volatile as oil revenue, it would have to move by a factor of more than 5. Property tax revenue moves slowly up or down. If property tax revenue were to move on an annualized basis like oil did in 2008, the \$82 million we receive from property tax would have to drop to \$16 million. Said another way, the assessed value of property would have to change by 500% to match the oil experience. Even in this very deep recession we only fell a few million dollars in property tax revenue. To compare this revenue source to oil is beyond reason.

We have been successful doing the right thing and we need to continue our policy to help assure a future without deficits and with opportunity for our young people.

While we have been successful in achieving structural fiscal balance, there are challenges ahead. The two major unknowns for the future are pensions and unfunded liabilities. We are the largest city in the California Public Employees Retirement System (CalPERS) and as such we are subject to its rules and demands for payment. CalPERS is changing the way it does business to make the system more sustainable by spreading gains and losses over 5 years instead of over 15 years. This will produce a more prudently funded system but the rates CalPERS charge the City each year will be more volatile. Thus, we will see much more change in our annual pension costs, both up and down, as CalPERS investment earnings change.

To "hedge" this risk, we will need to establish a reserve fund to meet these needs and manage it well. The fund will be necessary if we are to avoid future cuts to programs or deficits because of demands from CalPERS.

Unfunded liabilities are the second unknown for the future. The major items here are pensions, sick leave, retiree health, and worker's compensation. The figures illustrated in the Manager's budget are snap shots in time and these numbers will move up and down as a result of a variety of factors. However, much like pensions, we need to address these problems now to minimize their impact on future programs. We have made as start, but more needs to be done.

In closing, I want to make mention of the Harbor Department in two specific areas; first, they are in the process of unprecedented construction on key physical assets that enhance their business case and improve efficiency. I want to thank interim director Al Moro and his staff for their efforts to keep those projects on schedule despite complexities and cost issues that in some instances, were not easily predicted. The interim headquarters tenant improvement costs still hold some question for me; there are costs there that need to be better understood and I think the Council will rightly ask questions about during budget adoption process.

Secondly, there are items in their budget that I think deserve mention for the positive aspects both on operations and community impacts: this year marks the largest Tidelands transfer ever which is a mark of their commercial success this past year. They are also taking advantage of cheap money in the market right now in anticipation of the costs on the substantial capital projects I mentioned earlier coming due. Finally, they are hiring just about 50 additional people in the engineering bureau to support project management and operations. That is a substantial investment in human capital and one that I believe will pay dividends for years to come.

It is within this framework that I make the following recommendations to the Manager's budget.

1. Use the \$3.5 million surplus to offset future budget shortfalls in 2015 and 2016. We should not build this money into ongoing costs, but rather, stay within our budget and treat the \$3.5 million as one-time revenue reserved for expected future CalPERS costs due to temporary investment earnings changes. This will save future programs and keep us structurally balanced for three years.
2. Maintain the oil benchmark price at \$70 and continue to treat all revenue above that level as one-time and all revenue below that level as ongoing. It is financially risky and problematic to suggest otherwise.
3. There will be considerable one-time revenue available for capital spending; indeed, perhaps a once in a generation opportunity to invest in systems that increase productivity, support enhanced efficiency for City workers and allow for stronger controls on public funds. Our estimate is that an additional \$45 million will be available this year. There are many needs in our City and I know that there will be more need than revenue. It is the Council's job to

appropriate this money and select what should be done. I believe the Manager has done a very good job of recommending projects. Replacing our dangerously outdated and deficient financial and management systems now is also of critical importance. Replacement of these systems has been deferred so long, that without their replacement, day-to-day operations could be adversely affected. They are in danger of failing to meet our basic ability to control and manage the City and its finances.

4. In addition to the \$45 million discussed above, the Council took action in June to apportion \$12 million by council district to pay for streets, sidewalks and parks. As the City Council allocates funding for these projects, I will be particularly vigilant to ensure that projects are appropriate and efforts to shift these funds into other areas do not happen. We cannot allow things to be called infrastructure if they are not. I will be particularly vigilant on this issue.
5. In the past two years, my recommendations have included a review of various programs that might better be performed by the private sector as cost savings measures, items such as refuse, street sweeping and information technology among them. As part of this year's recommendation, those projects need to be brought to completion.