

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

R-30

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

January 5, 2009

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the Fiscal Year 2009 Year-End Budget Performance Report.
(Citywide).

DISCUSSION

This report reflects the City's Fiscal Year 2009 (FY 09) budget performance through September 30, 2009. Please be advised the information provided is unaudited as the audit for FY 09 has not yet commenced and will not be completed until approximately March 2010.

The report includes financial information for all funds and departments. While the financial report primarily discusses the General Fund, exceptional performance (both positive and negative) in other funds is highlighted where applicable.

Summary

The FY 09 Adopted Budget totaled \$3.4 billion for the City's 22 departments, and was later amended to \$3.6 billion during the fiscal year by the City Council. Of that amount, \$404.0 million comprised the General Fund budget, which was subsequently decreased to \$403.6 million during the fiscal year.

As of fiscal year-end, actual expenditures for all departments and all funds were \$2.2 billion. Revenues for all departments and all funds were \$2.2 billion. Unspent grant and capital project funds will be carried forward into subsequent fiscal years to support multi-year projects or grant-funded activities.

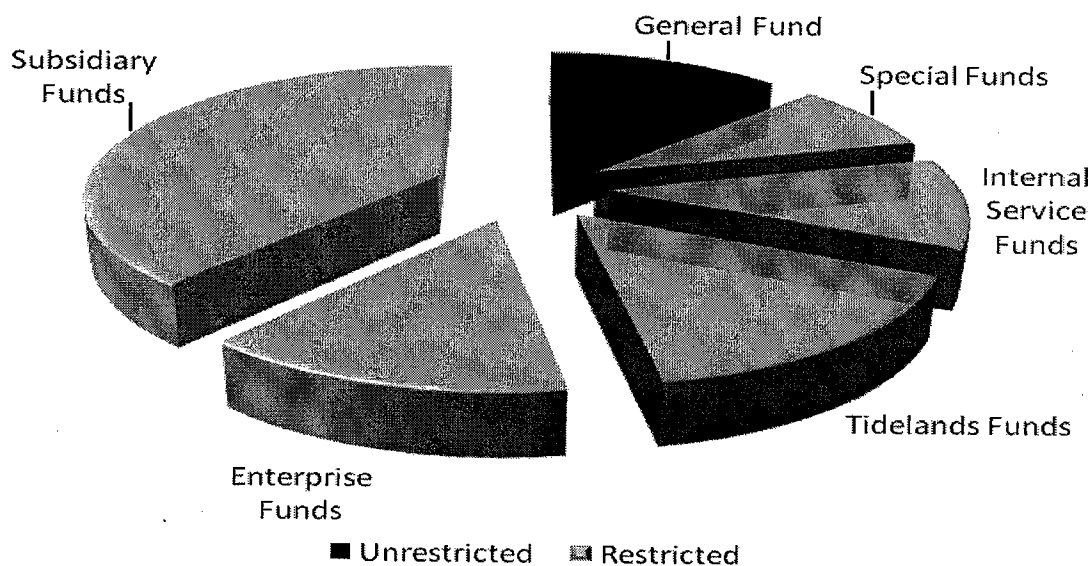
For the General Fund, actual expenditures for all departments were \$390.8 million, or \$12.8 million less than the Adjusted Budget of \$403.6 million, due to budget reduction strategies implemented by the City Manager during the first quarter of the fiscal year to ensure a balanced year-end budget. To assist departments in curtailing expenditures to end the year in balance, numerous cost-cutting measures were implemented early in the fiscal year. In FY 09, the City Manager issued department-specific savings targets, instituted a hard hiring freeze, reduced limits on Department contracting authority, deferred State-funded Capital projects and instituted a 40-hour work furlough to ensure a balanced budget. Actual General Fund revenues for all departments, excluding one-time revenues, totaled \$388.8 million, or \$18.9

million less than the Adjusted Budget of \$407.7 million. One-time revenue totaling \$4.0 million was also received in Fiscal Year 09 comprised of: 1) \$1.9 million transferred to the General Fund from Downtown Transient Occupancy Taxes, approved by the City Council on September 1, 2009; and 2) \$2.1 million in Asset Forfeiture funds received by the Police Department for restricted public safety purposes only. The \$2.1 million in Asset Forfeiture revenue has been set aside in a reserve to fund restricted public safety services in FY 10 and beyond. The \$1.9 million transfer related to the Downtown TOT was utilized to fund General Fund obligations as of September 30, 2009. Total General Fund revenue in FY 09 including one-time revenue totaled \$392.8 million.

FY 09 Expenditure Performance – All Funds

The City's Adopted FY 09 Budget for all funds includes \$3.0 billion of annual funds, \$338.9 million of carryover (multi-year grants and capital projects funds), prior year encumbrances (goods and services ordered in FY 08 but received in FY 09) and City Council-approved budget amendments of \$168.8 million. Combined, the total Adjusted City Budget as of September 30, 2009 was \$3.6 billion. Please see Attachment A for a breakdown of Citywide expenditures by fund.

Exhibit 1 – All City Funds by Fund Type



As illustrated in Exhibit I above, the City has 37 funds divided into six fund types that comprise the \$3.6 billion adjusted budget. Most of these funds are restricted funds, such as the Harbor Fund, Gas Fund and Tideland Funds that are designated for specific and limited activities. The majority of community services provided in the City, such as police and fire services, libraries and parks, are largely supported by the General Fund, which comprises only 11 percent of the entire adjusted City budget. For a discussion of notable fiscal performance in non-General Fund funds, please see the Other Funds section later in this report.

General Fund

FY 09 Revenue

As of fiscal year-end, \$392.8 million of General Fund revenue was received including one-time revenue; revenue net of one-times was \$388.8 million. The General Fund shortfall of \$18.9 million was created by economically impacted revenue sources such as Sales and Use Tax, Utility Users Tax, Uplands Oil Transfer, Transient Occupancy Tax, Motor Vehicle In-Lieu, Parking Citations, Interest Earnings on Pooled Cash and Oil Production Tax, among others. The following chart provides a more detailed discussion of key FY 09 revenue performance and sources.

Revenue Source	FY 09 Adjusted Budget	FY 09 Year-End Actuals	% Over/(Under) Budget	Notes
Secured Property Tax	\$67,600,000	\$69,988,469	3.5%	The final secured property tax distribution from the County was received in August. The total year-end payments are net of administrative costs totaling \$1.8 million charged to the City. As property taxes have a lagging economic effect, the financial impact of the current housing market crisis will be more pronounced in FY10. The City's Assessed Valuation has decreased 2.9 percent, which will negatively impact FY 10 revenue.
Real Property Transfer Tax	\$1,600,000	\$850,359	-46.9%	Receipts demonstrated a major decline below budgeted projections due to a continued decline in real estate sales activity and home prices.
Sales and Use Tax, (includes the Triple Flip)	\$55,198,211	\$52,146,879	-5.5%	The Sales and Use Tax payments are reduced by 25 percent for the State Triple Flip and are offset by the bi-annual In-Lieu of Sales Tax payment from the State. Sales tax revenue was hit significantly by the national economic crisis, ending the fiscal year \$3 million (or 5.5%) under budgeted levels.
Uplands Oil Transfer	\$18,857,471	\$12,571,195	-33.3%	Budgeted FY 09 revenue was based on an oil price of \$85.00/barrel. The price of Wilmington Crude oil reached a high of \$72.85/barrel and a low of \$25.80/barrel during the fiscal year, for a fiscal year-to-date average of \$48.94/barrel.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$40,444,000	\$41,672,148	3.0%	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. In-Lieu VLF payments exceeded budgeted expectations, allowing this revenue source to end the year over budget by \$1.2 million due to the lagging effect of property tax declines.

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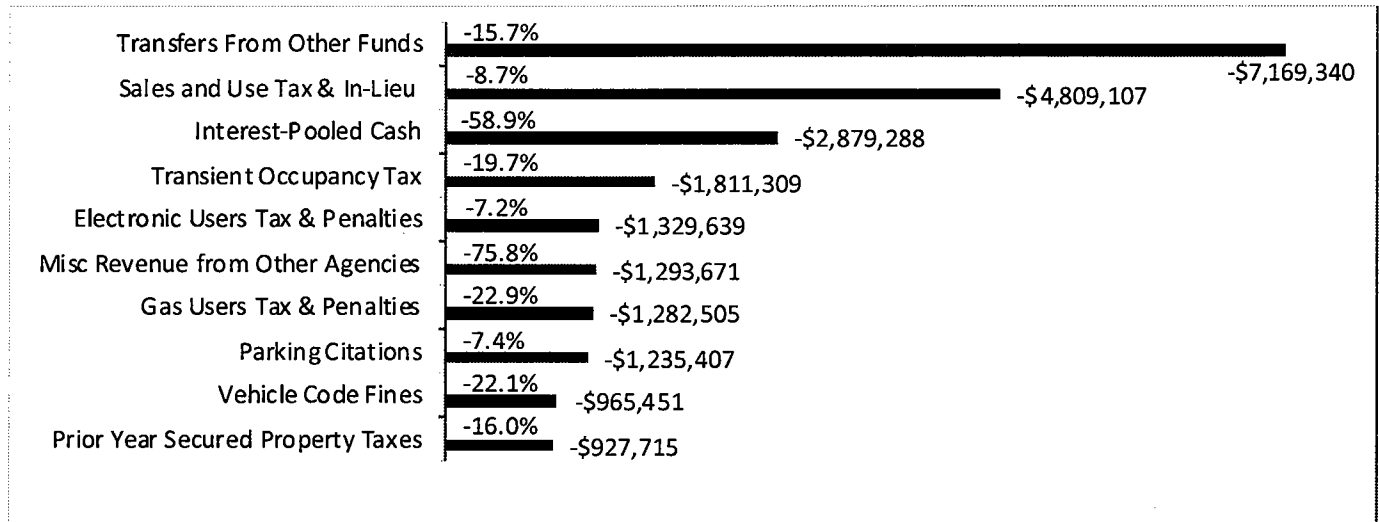
Revenue Source	FY 09 Adjusted Budget	FY 09 Year- End Actuals	% Over/(Under) Budget	Notes
Utility Users Tax	\$42,591,950	\$39,991,478	-6.1%	Electric UUT collections ended 7% below budget despite Southern California Edison's increased rates for some customer classes in the second quarter of this fiscal year. Natural gas UUT collections were 23% below budget due to lower volumes of gas consumed and lower prices compared to the prior year. Water UUT collections ended 5% below budget due to the success of water conservation efforts. Telephone UUT collections came in slightly above budget. Telephone UUT remittances are being reviewed by the City Auditor for compliance with Measure G, telecommunication changes approved by the voters in November 2008.
Parking Citations	\$16,654,482	\$15,419,075	-7.3%	Parking citation activity ended below budget by \$1.4 million (or 7.3%) below budgeted levels.
Business License Tax	\$11,337,589	\$11,303,853	-.03%	Business recovery efforts and the annual CPI adjustment maintained collections near budgeted levels.
Emergency Ambulance Fees	\$8,620,000	\$8,903,605	3.3%	Factors such as increases in Medicare/MediCal payments and increased efforts to collect delinquent accounts positively impacted collections beyond initial budgeted expectations.
Transient Occupancy Tax	\$9,180,000	\$7,368,691	-19.7%	The slowing economy has had a negative impact on Long Beach tourism, which has led to declines in hotel room occupancy rates in Long Beach hotels.
Pipeline Franchises	\$8,000,000	\$8,112,635	1.4%	Southern California Gas Pipeline Franchise fee revenue slightly exceeded the budget by 1.4%.
Electric Company Franchises	\$6,897,000	\$6,115,507	-11.3%	An Edison rate case with the Public Utilities Commission did not result in a rate increase for the current fiscal year. This led to collections below budgeted expectations.
Interest-Pooled Cash	\$4,888,000	\$2,008,712	-59.9%	Interest earnings from pooled cash came in below budget due to continued historically low interest rates.

Please note that Transient Occupancy Tax (TOT) revenue ended the year at \$7,368,691, reflecting a \$1,810,309 or 19.7 percent shortfall from the budgeted amount of \$9,180,000. This is primarily due to a decrease in hotel occupancy rates resulting from the current economic crisis. As TOT revenue came in under budget, additional TOT revenue is not available for deposit into the Housing Trust Fund.

A summary of the top 40 General Fund revenues with year-end actuals is included in Attachment B.

Exhibit 2 below shows the City's Top 10 General Fund Revenue Sources Impacted by the Economic Recession.

Exhibit 2 – Top 10 General Fund Revenue Sources Impacted by the Economic Recession. FY 09 Actuals Relative to Budget.



FY 09 Revenue by Department

Attachment C provides a breakdown of General Fund revenue performance by department. Many of the departmental variances are captured in the footnotes to this attachment. Public Works realized the highest level of General Fund revenue of all operating departments at \$25.4 million, followed by Financial Management at \$19.9 million and the Police Department at \$19.1 million.

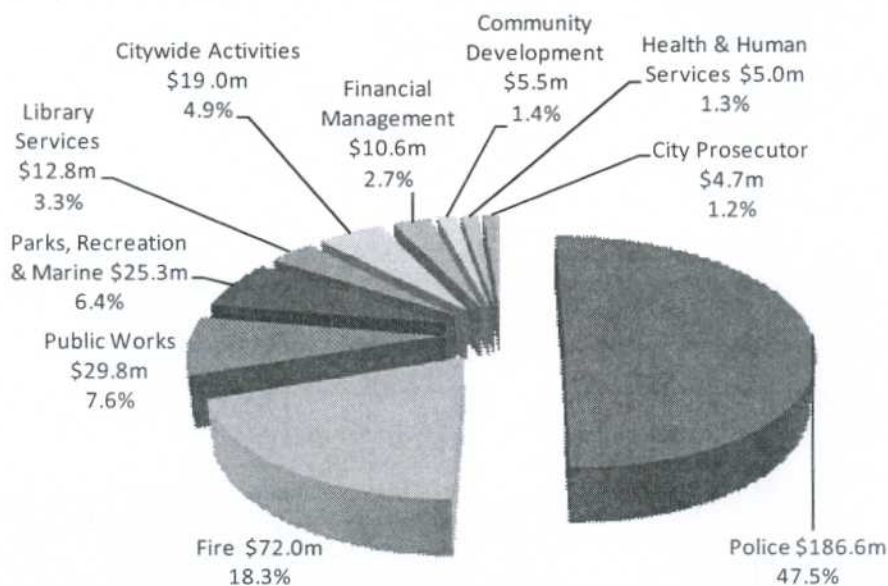
FY 09 Expenditures by Department

Actual General Fund spending for FY 09 at the department level came in at \$390.8 million, or at 96.8 percent of budget as shown in Attachment D, which provides General Fund spending by department. The ending fund balance for the General Fund was a narrow \$351,510 (less than one-tenth of a percent of the total adjusted budget). All departments ended the year with General Fund expenditures within adjusted budget limits with the exception of Development Services related to CityPlace garage operations. It should be noted that the Development Services Department's contribution, through the Redevelopment Agency, to the stability of the General Fund by funding the \$828,370 debt service payment for the CityPlace garage in FY 09, more than offset the overage in the department's General Fund spending. However, it is also important to note that the budgeted transfer of \$500,000 from the General Fund to Development Services Fund was increased to \$750,000 to ensure the Development Services Fund ended the year in balance.

All departments and employees should be commended for their responsiveness to the fiscal crisis and the sensitivity and availability of General Fund resources. The mid-year course correction required of City Manager departments, and the constraint demonstrated by non-City Manager departments was admirable, and directly related to the City's ability to end the year in balance. The 40-hour employee furlough was also a significant contributor to the General Fund's year-end success. Of note, the Police Department ended FY 09 \$5.5 million under its General Fund appropriation simultaneously meeting its \$2 million General Fund savings target and the \$2 million alternative furlough savings target among other efficiencies. This significant fiscal turnaround reflects the efforts of the entire Police organization to control operating costs, especially in overtime, while maintaining professional, quality services to the community. This savings provided sufficient appropriation to support the retiree health insurance supplement negotiated with the POA in-lieu-of the safety adjustment to median.

Exhibit 3 below shows the City's top 10 General Fund expenditures by department in FY 09 as a percentage of total General Fund expenditures. In aggregate, the Top 10 represents \$373.2 million, or 95 percent, of General Fund expenditures. Together, Police and Fire account for 66 percent of General Fund expenditures. The Departments of Police, Fire, Public Works, Parks, Recreation and Marine, and Library Services account for 83 percent of General Fund expenditures.

Exhibit 3 – Largest FY 09 Year End General Fund Expenditures by Department, as a Percentage of the \$390.7 million Total Expenditures.



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

FY 09 Vacancies

Another source of savings for departments were vacancies during FY 09. The citywide vacancy rate for all funds was 10 percent (or approximately 583 FTEs), while the vacancy rate for the General Fund was 8 percent (or approximately 232 FTEs). Workforce management to limit vacancies is always a challenge given general turnover from terminations, resignations and retirements. Given the natural rate of vacancies in departments, and to ameliorate the budget deficits created by fully budgeting for all positions, a 2.25 percent Attrition Factor is built into every General Fund department's budget. In FY 09, the budgeted 2.25 percent Attrition Factor generated \$2.7 million in savings, and was well below the citywide General Fund vacancy rate of 8 percent. Please note the FY 10 Adopted Budget also includes the 2.25 percent Attrition Factor as it has proven to be an effective way to achieve savings in the General Fund for naturally occurring vacancies.

Budget Stabilization Fund

As a result of the efforts by all departments to generate much needed operating savings, the City was able to fully retain the newly created Budget Stabilization Fund, a \$9 million reserve that is currently funded with \$6 million from the Sempra settlement and \$3 million in FY 08 ending fund balance. These critical savings will remain in reserve until such time that the City Council directs the City Manager to utilize and appropriate these resources for unexpected emergencies, State takeaways, or other unanticipated events.

Other Funds

The following section provides a discussion of notable fiscal performance in FY 09 in funds other than the General Fund.

Proposition H: Police and Fire Public Safety Oil Production Act (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actuals Revenue	FY 09 Actuals Expense	Ending Fund Balance FY 09
Police & Fire Public Safety Oil Prod Act	\$1,180,074	-	\$3,534,806	\$4,593,368	\$121,511

On May 1, 2007, the voters approved a special tax of 25 cents on every barrel of oil produced, to be used specifically for police officers and firefighters known as the Police and Fire Public Safety Oil Production Tax (Proposition H). The Police and Fire Safety Oil Production Act Fund began FY 09 with a fund balance of \$1,180,074. In the second year of this Fund, the revenue received is divided evenly between the Police and Fire Departments. Revenue was impacted by the precipitous drop in the price of oil during FY 09, which directly impacted the number of barrels produced. The adopted budget assumed the production of 14 million barrels of oil; however, only 13.4 million barrels were produced, resulting in a decrease in anticipated revenue of \$300,000 below budgeted levels. Nonetheless, the Prop H Fund continued to support the full cost of 12 Firefighters, a new fire truck costing \$1 million and 14 Motor Officers. The City Manager is working with the Police and Fire Departments to develop options to keep the fund in balance in FY 10.

Fleet Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actual Revenue	FY 09 Actual Expense	Ending Fund Balance FY 09
Fleet Services	\$8,602,245	(\$124,450)	\$32,285,195	\$37,677,095	\$3,085,895

The Fleet Fund supports the purchase and maintenance of the City's fleet, named the #1 Green Fleet in North America during FY 09, including fire engines, heavy-duty trucks, street sweepers, police cars and code enforcement sedans. The Fleet Fund began FY 09 with a fund balance of \$8.6 million, comprised of multi-year accumulated vehicle replacement funds. The Fleet Fund has had a persistent structural imbalance, exacerbated in FY 09. Fleet operations are moving towards more preventive maintenance and a robust but measured capital replacement program to reduce costs and to bring the Fund back into balance. The structural imbalance of the Fund is a concern for FY 10; however, fleet management will work with its client departments to revise criteria for vehicle replacement to age, mileage and condition before purchasing new vehicles. This additional oversight will decrease the outflow from the Capital Replacement Fund while not compromising the condition of the Fleet, and keeping maintenance and repair costs low.

Towing Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actual Revenue	FY 09 Actual Expense	Ending Fund Balance FY 09
Towing	\$224,895	-	\$8,524,873	\$7,727,132	\$1,022,636

The Towing Fund supports towing responses to clear vehicle accidents, impound vehicles and support the City's fleet. In addition, the Towing Fund supports the operations at the Towing Yard as well as the sale of unclaimed vehicles. The Towing Fund began FY 09 with a fund balance of \$224,895. The Towing Fund optimization study recommended bolstering the yard staff, putting more drivers in trucks and reducing the reliance on contractors for tows. Despite these investments, progress has been slow in hiring qualified employees. Therefore, the use of contract tows has not decreased as anticipated, putting strain on the Fund as contract costs escalate. In FY 09, \$308,000 was spent on contract tows, compared to \$384,000 and \$441,000 spent by the City in FY 07 and FY 08, respectively. As a result of higher costs combined with lower than expected revenue collections, the Towing Fund's revenue is not sufficient to support the budgeted \$3 million transfer to the General Fund, resulting in a \$1.4 million transfer to ensure a positive ending fund balance going into FY 10.

Please note that the FY 10 Adopted Budget reflects a slightly higher, \$3.4 million, transfer to the General Fund. The FY 09 ending fund balance will help the Towing Fund meet its budgeted transfer in FY 10.

The City has implemented a pilot booting program, which is expected to decrease the reliance on contract tows and use City truck drivers more efficiently and, in turn, fulfill the staffing model put forth in the optimization study. FY 10 performance of the booting program will be closely monitored. In addition, during FY 09, Towing Fund fees were increased mid-year and efforts were increased toward the collection of delinquent accounts. Both of these measures should

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bolster Towing Fund revenues in FY 10 to return the Towing Fund's transfer to the General Fund up to budgeted levels.

Health Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actual Revenue	FY 09 Actual Expense	Ending Fund Balance FY 09
Health	(\$158,266)	-	\$39,226,049	\$39,040,582	\$27,201

The Health Fund supports vital disease prevention, prenatal care, healthcare services to the City's residents, and bio-terrorism prevention that would otherwise be provided by the County at a decreased service level. The Health Fund began FY 09 with a negative fund balance of \$158,266 due to slowed repayments from grantors, especially the State of California. Faced with cash-flow shortages due to State and other reimbursements being increasingly delayed, the Health Fund through FY 09 has received \$3,759,403 in temporary General Fund cash loans, which will be reimbursed in full upon receipt of several large reimbursements from State grantors.

However, the Health Department took significant, proactive strides to bring its FY 09 expenditures in line with expected revenues. The Department made \$4.1 million in mid-year expenditure reductions to programs and staffing. Reductions included the closure of some programs (such as alcohol and drug rehabilitation services), many of which shifted Department clients to other private or non-profit service providers in Long Beach. As a result, the Department only required a \$100,000 year-end loan to ensure a positive cash balance in FY 09, the lowest amount in several years.

Not willing to put its fate in Sacramento's hands, the Health Department made an additional \$3.9 million in Health Fund budget reductions for the FY 10 adopted budget. These Health Fund reductions included cuts to Homeless Services, downsizing the Department's Walk-In Clinic, the closure of both the Department's Prenatal and Senior Health Clinics, with the reductions impacting substance abusers, seniors, children, and expectant mothers most severely. The Department has begun to outline plans for additional FY 10 mid-year reductions if the funding situation does not show signs of improvement, which is doubtful given the State's announcement of an estimated \$21 billion budget deficit for FY 11.

Development Services Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actuals Revenue	FY 09 Actuals Expense	Ending Fund Balance FY 09
Development Services Fund	\$544,832	\$208,363	\$12,374,235	\$13,117,820	\$9,611

The Development Services Fund was established in FY 07 as a means of segregating development fees paid for permits, plan check and other regulatory services required by the development community. Since its establishment, the Fund has been challenged by the gradual, but eventually significant decline in development activities due to the real estate crisis. Since FY 07, the number of permits issued by the Development Services Department has declined from 11,723 to 7,652 in FY 09, while the number of inspections performed decreased from 84,416 to 45,473 over the same period of time.

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As a result, revenues have consistently fallen short of budgeted expectations, with FY 09 year-end actual revenue of \$12.4 million compared to \$15.2 million in the adopted budget. The Department has taken gradual steps to get its expenditures in line with its revenues; however, due to the FY 09 shortfall, a General Fund budgeted operating transfer of \$500,000 and a loan of \$250,000 was required to ensure the Fund ended the fiscal year in balance. There is no General Fund financial support budgeted for the Development Services Fund in FY 10; hence, additional steps will need to be taken in FY 10 to bring expenses in line with revenue.

Capital Projects Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actual Revenue	FY 09 Actual Expense	Ending Fund Balance FY 09
Capital Projects	\$25,692,522	\$8,401,045	\$7,866,833	\$16,081,797	\$25,878,603

The Capital Projects Fund began FY 09 with a fund balance of \$25.7 million, which consisted of funds received to support multi-year projects and expenditures, including FY 09 expenses. During the fiscal year, the City spent \$16.1 million on Capital Improvement Projects, of which \$14.3 million was provided through the federal government's American Resource and Recovery Act (ARRA) stimulus funding. Projects completed included 18 miles of arterial and residential street repair (including 7th Street from Redondo to PCH), the Bixby Park and Band Shell rehabilitation, golf course rehabilitation projects, ADA facility upgrades and the MLK park pool enclosure. In addition, the repair of the Arlington Storm Drain was funded and initiated, along with the Termino Storm Drain, the Atherton Ditch and other long-awaited public works projects.

Harbor Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actuals Revenue	FY 09 Actuals Expense	Ending Fund Balance FY 09
Harbor Fund	\$769,606,714	(\$101,044,808)	\$452,112,555	\$446,213,757	\$674,460,705

As a result of the worldwide economic downturn, Harbor fiscal 2009 revenues were \$311.4 million, or 16.5 percent lower than the adopted budget. In addition, revenues from oil operations were \$37.6 million, or 31.9 percent lower than budget, mainly due to lower oil prices and lower oil production. Operating expenses, before depreciation, were \$101.4 million, or 10.5% lower than budget, mainly due to maintaining open vacancies and other cost cutting measures.

In fiscal 2009, industry stepped up and replaced, on its own, most of the dirty trucks with 2007-compliant trucks. As a result, only a fraction of the amount budgeted by Harbor was spent on truck replacement and, at the same time, only a fraction of the budgeted clean truck fees were collected. No Proposition 1B funds were received in fiscal 2009 because of the State budget issues and the inability to float bonds at the time. Additionally, the infrastructure fees were not implemented in fiscal 2009 in order to stay competitive and mitigate cargo diversion.

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Because of the significant drop in operating and oil revenues, the unaudited Harbor Fund net income is expected to be \$118.2 million, or 25.5 percent lower than budget. Accordingly, the fiscal 2011 Tidelands Transfer, if requested by the City Council and approved by the Board of Harbor Commissioners, is anticipated to be \$11.8 million, approximately \$4.2 million less than FY 09.

Tidelands Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actual Revenue	FY 09 Actual Expense	Ending Fund Balance FY 09
Tidelands Operating	\$35,535,174	(\$13,309,990)	\$131,171,036	\$130,724,166	\$22,672,054

The Tidelands Fund supports the Convention Center operations, Parks and Recreation facilities and activities, water quality, beach maintenance, the marinas, and lifeguard and Marine Safety services along the City's coastline and tidal region. The Tidelands Fund began FY 09 with a fund balance of \$35.5 million. The Fund's balance in FY 09 decreased by \$13 million, primarily because the Fund's operating costs exceed the ongoing sources of revenue to support them. This imbalance was exacerbated due to a sharp decline in oil prices starting in October 2008. Tidelands Oil revenue was budgeted at \$19 million, based on \$85/bbl, while actual revenue was received of \$13 million, based on a fiscal year-to-date average of \$48.94/bbl. This loss was offset in part by a payment to the Tidelands Fund from the Harbor Department of \$300,000 to support the Aquarium of the Pacific's (Aquarium) debt service.

This loss of key revenue forced the City to defer over \$6.5 million in planned capital projects in FY 09, including the Rainbow Harbor TransPac and Parker's Lighthouse docks, Belmont Pool improvements, beach restroom refurbishment, beach parking lot rehabilitation, and Aquarium capital reinvestments. In an effort to maintain the health and viability of the Tidelands Fund, a Tidelands Public Safety Committee was created and will continue to devise strategies to consolidate and streamline public safety services, eliminate redundancies amongst agencies and to identify long-term cost savings for the Fund.

The need for reinvention of Tidelands service delivery has become acute with the projected reduction in the Harbor Department's annual transfer to the Tidelands Fund of over \$4 million in FY 11 and almost \$8 million in FY 12. To this end, no capital projects were budgeted in the Tidelands Fund for FY 10, continued deferment will be considered for FY 11, and almost \$8 million in FY 12 based on future revenue projections.

Uplands Oil Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actual Revenue	FY 09 Actual Expense	Ending Fund Balance FY 09
Upland Oil	\$4,907,657	(\$228,594)	\$19,011,174	\$19,464,732	\$4,225,505

The Uplands Oil Fund supports oil operations outside of the Tidelands area. The Uplands Oil Fund began FY 09 with a fund balance of \$5 million. In FY 09, the budgeted price of oil was \$85/bbl; however, a steep decline made the price drop to \$25.80/bbl early in the fiscal year from record highs, finally achieving a fiscal year-to-date average of \$48.94/bbl. The City's General Fund benefits from operating transfers of net revenues from this Fund. The total

transfer to the General Fund in FY 09 was \$12.6 million; compared to the budgeted transfer of \$18.9 million.

Oil has proven to be a heavily volatile commodity and reliance upon its success for General Fund operations puts the City in a precarious position. To mitigate this risk in the future, the FY 10 Adopted Budget is predicated on a transfer from the Uplands Oil Fund based on \$40/bbl for FY 10. Should the price of oil continue to perform at better than budgeted levels, resultant revenues will first be used to meet the overall budgeted needs of the General Fund with any surplus to be set-aside for one-time needs such as additional sidewalk repairs, among other capital projects.

Special Advertising and Promotions Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actuals Revenue	FY 09 Actuals Expense	Ending Fund Balance FY 09
Special Advertising & Promotion	\$2,590,998	-	\$5,141,493	\$7,344,851	\$387,641

The Special Advertising and Promotions Fund (SAP) is the primary funding source for the City's annual contract with the Long Beach Convention and Visitor's Bureau (CVB), the Office of Special Events and Filming (OSEF) under the Department of Parks, Recreation and Marine and other City Manager-led promotional activities. Primary revenue sources for the Fund include Transient Occupancy Taxes (half of all TOT generated in hotels not located in the downtown redevelopment area or at the airport), OSEF permits and fees for service and filming revenue. In FY 09 the SAP Fund began the year with a \$2.6 million available fund balance. During the fiscal year, this fund balance was reduced by \$2.2 million, mostly from the steep decline in TOT revenue, which ended the year \$2.1 million under budgeted levels. While the OSEF expenditures (both Special Events and Filming sections) of approximately \$1.2 million were fully offset by revenue collected through its user fees and charges, additional expenditures for park maintenance and recreation programs charged to the SAP Fund were not offset by revenue, resulting in a net cost to the Fund of \$452,000. In FY 10, TOT revenue estimates were reduced to reflect the current economic challenges; however, additional cost recovery for City services or strategic cost reductions may be required if TOT performance continues to lag below budgeted levels.

Insurance Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actuals Revenue	FY 09 Actuals Expense	Ending Fund Balance FY 09
Insurance Fund	\$70,759	(\$118,922)	\$36,598,370	\$35,120,306	\$1,429,902

The Insurance Fund supports the City's Workers' Compensation, General Liability, and legal claims and litigation costs. Over the past two years, the Fund has struggled to maintain a positive balance. The Insurance Fund began FY 09 with a fund balance of \$70,759. Additional revenues, in the form of interdepartmental charges to departments and continued savings from Workers' Compensation reforms helped bolster the ending fund balance for FY 09. The fund balance of \$1.4 million, while better, is an insufficient buffer against potential future settlements and claims as well as other liability payments sought from the City for damages and injuries.

Employee Benefits Fund (Restricted)

Fund Type	Beginning Fund Balance FY 09	Reserves/Adjustments to Fund Bal	FY 09 Actuals Revenue	FY 09 Actuals Expense	Ending Fund Balance FY 09
Employee Benefits Fund	\$544,832	\$208,363	\$12,374,235	\$13,117,820	\$9,611

In FY 09, the Employee Benefits Fund (EBF) was required to use \$743,585 of its fund balance (a one-time source) to support annual expenditures, as collections from departments through payroll overhead charges at budgeted levels were insufficient to cover increased expenditures for paid vacations, sick leave and other employee benefits during the fiscal year.

As previously reported, the EBF is carrying significant long-term unfunded employee benefit liabilities accrued over the years, in addition to the a slight Fund balance. Specifically, as discussed during the December 1, 2009 Employee Pension study session, unfunded earned sick leave banks that employees may use to pay health insurance premiums after retirement would cost \$67 million (and growing) to fully fund, while the implicit rate subsidy, or the difference between the actual cost of retiree health insurance and the amount retirees are currently paying, would cost approximately \$87 million to fully fund. To fund these two combined unfunded liabilities of \$154 million, approximately \$5 million a year would need to be budgeted, and collected from, departments for the foreseeable future.

FY 10 General Fund Outlook

In FY 09, the City was mired in the aftermath of the worst recession since the Great Depression. Local unemployment reached 12 percent by the end of the fiscal year, while declines in core General Fund revenue (e.g., sales tax, oil, transient occupancy tax, parking citation and UUT revenue) forced the City to implement mid-year budget reductions to end the year in balance. As we look to FY 10, significant fiscal challenges remain on the horizon. The FY 10 Adopted General Fund Budget is structurally balanced for the fourth consecutive year, providing for a stable starting point for the fiscal year. However, Long Beach's financial outlook is influenced by multiple factors, including national and local economic trends, the State of California's budget, current commitments for service delivery and negotiated commitments to the workforce. The national and local economic crises will continue to impact key revenue sources, including sales tax and property tax. However, with the price of oil as high as \$72/bbl during the first quarter of the fiscal year, this revenue source may be able to potentially offset some of the impact on other economically vulnerable revenue sources.

Although many outside factors influence Long Beach's financial outlook, the City Manager and Department of Financial Management will continue to take an increasingly conservative and cautious position regarding department expenditures, including budgeted expenditures. The management team has implemented and will maintain numerous strategies to proactively address this economic crisis and its impacts. The Department of Financial Management will continue to monitor the fiscal situation to determine if mid-year budget corrections are necessary. The volatility of the State budget crisis, as well as the shifting revenue impacts of the continued recession warrants prudence in the management of the FY 10 budget.

FY 11 and Beyond

At the time of FY 10 budget adoption, structural deficits were projected in the General Fund for the next two fiscal years as costs continue to rise while revenue remains lethargic and well below levels experienced prior to the economic downturn. Looming on the horizon in FY 12 is a significant payment to CalPERS to partially offset investment losses experienced in FY 09. The City Council took bold, direct action to balance the General Fund for FY 10, which has placed the City on stronger footing for our continued fiscal challenges; however, we must remain focused on strategically reigning in expenses and finding additional revenue sources to support our on-going commitments in the near future.

Conclusion

FY 09 posed one of the most challenging years for the City to provide myriad services to the community under strained fiscal conditions. Heavy declines in major revenue sources required historic departmental budget savings to ensure a balanced budget. Fortunately, the statistics put into place in the first quarter of the Fiscal Year lead to a balanced budget at year-end. Given sharp declines in the City's major revenue streams, the FY 10 budget will also be significantly challenged. As the economy struggles to rebound, the City's General Fund revenue will face a tough task in balancing out the gradual increase in the costs of providing necessary services to the community. In addition, as the state looks to solve its budget shortfalls with local revenues, the City stands ready to take swift, immediate action if necessary to further reduce costs while protecting core services.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:


PATRICK H. WEST
CITY MANAGER

**Year End 2009
Expenditure Analysis by Fund
Fiscal Year 2009
(100% of Year Completed)**

Attachment A

Fund	FY 09 New Allocation	Estimated All-Years Carryover ¹	FY 09 Adopted Appropriation	Amendments ²	Adjusted Budget	Year-End Actuals	
Funds with All Years Carryover							
Airport	\$34,918,652	\$30,198,726	\$65,117,378	\$13,598,531	\$78,715,909	\$43,683,076	55.5%
Business Assistance	1,214,532	599,743	1,814,275	2,381,938	4,196,213	1,879,348	44.8%
Capital Projects	10,790,141	45,103,837	55,893,978	32,746,600	88,640,578	13,486,314	15.2%
Civic Center ³	1,644,585	2,207,705	3,852,290	(2,327,806)	1,524,484	2,081,744	136.6%
Community Development Grants	26,749,523	35,312,476	62,061,999	29,550,707	91,612,706	36,878,566	40.3%
Fleet Services	36,339,357	847,452	37,186,809	2,801,161	39,987,970	37,651,985	94.2%
Gas	144,834,502	1,236,664	146,071,166	609,981	146,681,147	100,312,392	68.4%
Gasoline Tax Street Improvement	17,354,032	21,926,803	39,280,835	(2,840,619)	36,440,216	12,952,015	35.5%
General Grants	6,657,583	13,652,789	20,310,372	(400,743)	19,909,629	14,795,625	74.3%
General Services	36,876,801	189,233	37,066,034	1,935,315	39,001,350	35,447,551	90.9%
Harbor	1,020,678,713	-	1,020,678,713	-	1,020,678,713	444,653,403	43.6%
Health	44,918,181	29,575,921	74,494,102	4,536,206	79,030,307	39,042,956	49.4%
Housing Authority	67,457,618	764,004	68,221,622	2,458,868	70,680,490	69,110,152	97.8%
Housing Development	26,704,716	63,230,146	89,934,862	38,669,015	128,603,876	26,817,478	20.9%
Insurance	36,371,584	-	36,371,584	261,923	36,633,507	35,120,306	95.9%
Parking Authority	-	-	-	-	-	-	-
Police & Fire Public Safety Oil Production Act	4,756,444	-	4,756,444	(21,315)	4,735,128	4,593,368	97.0%
Redevelopment	142,465,986	55,517,816	197,983,802	21,756,903	219,740,705	117,344,960	53.4%
Refuse/Recycling	49,584,535	90,213	49,674,748	586,559	50,261,307	43,264,977	86.1%
SERRF	55,212,970	-	55,212,970	(4,869)	55,208,101	50,656,363	91.8%
Sewer	17,941,697	-	17,941,697	-	17,941,697	14,169,258	79.0%
Tidelands Operating	134,673,877	14,591,470	149,265,347	8,197,053	157,462,400	129,678,913	82.4%
Transportation	16,922,674	23,872,736	40,795,410	14,071,475	54,866,885	22,507,387	41.0%
Water	87,495,696	-	87,495,696	-	87,495,696	79,160,955	90.5%
SUBTOTAL	\$ 2,022,564,398	\$ 338,917,734	\$ 2,361,482,132	\$ 168,566,880	\$ 2,530,049,013	\$ 1,375,289,091	54.4%
Funds Without All Years Carryover							
General	\$ 403,978,750	\$ -	\$ 403,978,750	\$ (370,968)	\$ 403,607,781	\$ 390,752,535	96.8%
Belmont Shore Parking Meter	669,532	-	669,532	-	669,532	505,383	75.5%
Certified Unified Program Agency (CUPA)	1,294,779	-	1,294,779	41,396	1,336,176	1,330,202	99.6%
Employee Benefits	227,098,045	-	227,098,045	4,253	227,102,299	204,658,337	90.1%
Development Services	13,839,827	-	13,839,827	(86,612)	13,753,215	13,117,820	95.4%
Park Development	1,057,653	-	1,057,653	(636)	1,057,017	303,429	28.7%
Parking & Business Area Improvement	7,031,088	-	7,031,088	1,144	7,032,232	5,886,792	83.7%
SERRF JPA	11,394,998	-	11,394,998	-	11,394,998	11,263,947	98.8%
Special Advertising & Promotion	6,938,289	-	6,938,289	744,893	7,683,183	7,344,851	95.6%
Tideland Oil Revenue	363,188,961	-	363,188,961	(26,210)	363,162,751	163,412,178	45.0%
Towing	9,825,615	-	9,825,615	(29,197)	9,796,418	7,727,132	78.9%
Upland Oil	28,650,709	-	28,650,709	-	28,650,709	19,464,732	67.9%
SUBTOTAL	\$ 1,074,968,248	\$ -	\$ 1,074,968,248	\$ 278,064	\$ 1,075,246,312	\$ 825,767,338	76.8%
TOTAL - All Funds	\$ 3,097,532,646	\$ 338,917,734	\$ 3,436,450,380	\$ 168,844,944	\$ 3,605,295,325	\$ 2,201,056,429	61.1%

Notes:

¹ All-Years Carryover is composed of multi-year grants and Capital Improvement Program (CIP) funds; unspent amounts are carried over to future years.

² Amendments reflect budget adjustments approved by the City Council during the fiscal year including All-Years Carryover Budget Adjustments.

³ Due to increased Civic Center construction management and design costs.

September 2009
General Fund Revenue (Top 40)
Fiscal Year 2009
(100% of Year Completed)

Attachment B

TOP 40 GENERAL FUND REVENUES	FY 09 Adjusted Budget	FY 09 Year-End Actuals	Over/(Under) FY 09 Adjusted v. Actuals	% of FY 09 Actuals Over/(Under) Budget
SECURED REAL PROPERTY TAXES	\$ 67,600,000	\$ 69,988,469	\$ 2,388,469	3.53%
CITY SALES AND USE TAX & IN-LIEU SALES AND USE TAX	55,198,211	50,389,104	(4,809,107)	-8.71%
VEHICLE LICENSE FEE & PROPERTY TAX IN-LIEU OF VLF	40,444,000	41,672,148	1,228,148	3.04%
ELECTRONIC USERS TAX & PENALTIES	18,479,500	17,149,861	(1,329,639)	-7.20%
PARKING CITATIONS	16,654,482	15,419,075	(1,235,407)	-7.42%
TELEPHONE USERS TAX & PENALITES	14,943,000	15,145,983	202,983	1.36%
PIPELINE FEES	12,013,564	11,421,293	(592,271)	-4.93%
BUSINESS LICENSE TAXES	11,337,589	11,303,853	(33,736)	-0.30%
TRANSIENT OCCUPANCY TAX	9,180,000	7,368,691	(1,811,309)	-19.73%
EMERGENCY AMBULANCE FEES	8,620,000	8,903,605	283,605	3.29%
ELECTRIC COMPANY FRANCHISES	6,897,000	6,115,507	(781,493)	-11.33%
PIPELINE FRANCHISES	8,000,000	8,112,635	112,635	1.41%
INTEREST-POOLED CASH	4,888,000	2,008,712	(2,879,288)	-58.91%
GAS USERS TAX & PENALTIES	5,604,450	4,321,945	(1,282,505)	-22.88%
OTHER DEPT SVCS TO PROPRIETARY FUNDS	4,124,278	4,477,883	353,605	8.57%
PRIOR YEAR SECURED REAL PROPERTY TAXES	5,814,000	4,886,285	(927,715)	-15.96%
VEHICLE CODE FINES	4,367,891	3,402,440	(965,451)	-22.10%
AMERICAN GOLF LEASE	4,550,000	4,806,942	256,942	5.65%
CHARGES FOR SPECIAL SERVICES	5,292,840	5,103,659	(189,181)	-3.57%
WATER USERS TAX & PENALITES	3,565,000	3,373,689	(191,311)	-5.37%
LAND,BLDG,R/W,EASEMENT,APT RENTALS	3,310,000	3,379,372	69,372	2.10%
CIP-ENGINEERING CHARGES	3,150,000	4,005,638	855,638	27.16%
OIL PRODUCTION TAX	2,250,000	2,012,246	(237,754)	-10.57%
REDEV. REIMB.-NORTH LB	2,533,870	2,874,814	340,944	13.46%
MISC REVENUE FROM OTHER AGENCIES	1,707,312	413,641	(1,293,671)	-75.77%
REAL PROPERTY TRANSFER TAX	1,600,000	850,359	(749,641)	-46.85%
OFF-STREET PARKING	1,394,128	742,728	(651,400)	-46.72%
INTEREST-LOAN REPAYMENTS	934,911	872,945	(61,966)	-6.63%
OTHER DEPT CHGS TO GOVT'L FUNDS	1,121,616	1,115,143	(6,473)	-0.58%
METERED/OTHER PARKING	1,214,000	1,086,939	(127,061)	-10.47%
ASSET MANAGEMENT CHARGES	1,232,350	1,311,972	79,622	6.46%
CITY/MISC/BOND REFI ADVANCES	2,300,000	2,300,000	-	0.00%
POLICE CHARGES FOR SPECIAL EVENTS	1,110,651	1,314,246	203,595	18.33%
FIRE INSPECTION FEES	1,157,000	1,186,124	29,124	2.52%
FACILITY RENTAL	1,016,207	1,003,824	(12,383)	-1.22%
FIRE PLAN CHECK FEES	1,008,000	1,374,260	366,260	36.34%
UNSECURED PERSONAL PROPERTY TAXES	586,500	1,662,800	1,076,300	183.51%
INTANGIBLE PERSONAL PROPERTY TAXES	1,000,000	1,046,643	46,643	4.66%
SELF SUSTAINING CLASSES	913,442	922,693	9,251	1.01%
TRANSFERS FROM OTHER FUNDS	45,671,822	38,502,482	(7,169,340)	-15.70%
SUBTOTAL TOP 40 GENERAL FUND REVENUES	382,785,614	363,350,649	(19,434,965)	-5.08%
SUBTOTAL ALL OTHER REVENUES	24,252,364	25,456,597	1,204,233	4.97%
SUBTOTAL EXPECTED GENERAL FUND	\$ 407,037,978	\$ 388,807,246	\$ (18,230,732)	-4.48%
TOT TRANSFER	\$ -	\$ 1,881,211	\$ 1,881,211	
ASSET FORFEITURE	648,232	2,158,905	1,510,673	
SUBTOTAL ONE-TIMES & RESTRICTED REVENUES	648,232	4,040,116	3,391,884	
TOTAL GENERAL FUND	407,686,210	392,847,362	(14,838,848)	-3.64%

Year End 2009
Revenue Analysis by Department
General Fund - Fiscal Year 2009
(100% of Year Completed)

Attachment C

Department	FY 09 Adopted Budget	Amendments ¹	Adjusted Budget	Year-end Actuals	
Mayor and City Council	\$ -	\$ -	\$ -	\$ -	-
City Attorney	250	-	250	80	31.9%
City Auditor	-	-	-	6,991	-
City Clerk	126,743	-	126,743	114,766	90.6%
City Manager	-	-	-	5,078	-
City Prosecutor	-	-	-	15,822	-
Civil Service	-	-	-	-	-
Community Development ²	6,209,256	61,185	6,270,441	4,807,982	76.7%
Citywide Activities	311,331,098	-	311,331,098	296,827,350	95.3%
Development Services ³	1,023,556	280,500	1,304,056	992,181	76.1%
Financial Management	20,451,380	(873,812)	19,577,568	19,853,997	101.4%
Fire	11,562,900	1,059,000	12,621,900	13,996,555	110.9%
Health and Human Services	1,741,193	-	1,741,193	1,750,322	100.5%
Library Services	581,617	35,255	616,872	637,267	103.3%
Parks, Recreation & Marine	9,163,158	31,860	9,195,018	9,319,239	101.4%
Police	17,657,934	1,291,410	18,949,344	19,130,466	101.0%
Public Works	25,220,027	731,700	25,951,727	25,389,265	97.8%
TOTAL	\$ 405,069,112	\$ 2,617,098	\$ 407,686,210	\$ 392,847,362	96.4%

Notes:

¹ Amendments reflect budget adjustments approved by the City Council during the fiscal year.

² Expected revenue from Community Development included \$1 million from the City Sponsorship Program that failed to gain City Council Approval in FY 09.

³ A portion of Development Services revenues are derived from historic preservation fees. Due to the slowing of the economy in the housing sector, historic preservation activity is deflated.

Year End 2009
Expenditure Analysis by Department
General Fund - Fiscal Year 2009
(100% of Year Completed)

Attachment D

Department	FY 09 Adopted Budget	Amendments ¹	Adjusted Budget	Year-end Actuals	
Mayor and City Council	\$ 5,032,840	\$ (71,595)	\$ 4,961,245	\$ 4,787,576	96.5%
City Attorney	2,989,841	8,273	2,998,114	2,997,513	100.0%
City Auditor	2,289,732	2,859	2,292,590	2,225,167	97.1%
City Clerk	3,713,740	37,564	3,751,303	3,330,444	88.8%
City Manager	3,031,422	(155,726)	2,875,696	2,415,223	84.0%
City Prosecutor	5,058,303	4,307	5,062,610	4,727,201	93.4%
Civil Service	2,188,600	(31,602)	2,156,998	2,008,229	93.1%
Community Development	5,589,855	132,542	5,722,397	5,541,325	96.8%
Citywide Activities	20,264,581	649,768	20,914,350	19,070,700	91.2%
Development Services ²	1,895,586	(494,142)	1,401,444	1,604,694	114.5%
Financial Management	10,696,938	(19,296)	10,677,642	10,631,179	99.6%
Fire	73,187,088	312,482	73,499,570	71,968,366	97.9%
Health and Human Services	5,317,374	(240,519)	5,076,855	5,016,101	98.8%
Library Services	12,999,778	(28,914)	12,970,865	12,769,045	98.4%
Parks, Recreation & Marine	25,673,507	132,144	25,805,650	25,289,398	98.0%
Police	192,805,368	(672,426)	192,132,942	186,616,018	97.1%
Public Works	31,244,197	63,314	31,307,511	29,754,356	95.0%
TOTAL	\$ 403,978,750	\$ (370,968)	\$ 403,607,781	\$ 390,752,535	96.8%

Notes:

¹ Amendments reflect budget adjustments primarily due to prior-year encumbrances (purchase orders).

² Due to expenses related to CityPlace garage operations. The Redevelopment Agency assumed the debt service payment for parking garage in FY 09, which more than offset the overage of Development Services' General Fund spending.