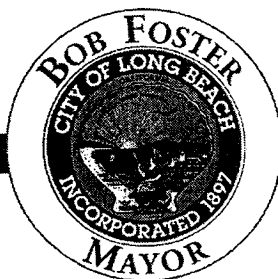


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**Office of Mayor
Bob Foster**

**Mayor's Budget
Recommendations**

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Fiscal Year 2010

presented July 30, 2009



July 30, 2009

Members of the City Council:

Pursuant to the Long Beach City Charter, I am transmitting the Mayor's recommendations to the City Manager's structurally balanced FY 2010 budget.

The fiscal tectonic plates have shifted globally and are affecting all levels of government like at no time before in our lives. We should not expect this situation to turn around and "normalize" quickly. The combination of increasing wages, unsustainable pension commitments, increasing service demands, and the broadening and layering of programs have created a situation where the public sector has outstripped the capacity of the private sector to support it.

Until policy makers at all levels understand that a significant readjustment is needed, where wages, pensions, and programs are brought into line with fiscal reality, we will continue to see State budgets with "smoke and mirrors" and "kick the can down the road" provisions, while local governments become more hampered in trying to provide the basic services that nearly every citizen relies on their daily lives.

The State has borrowed from emergency funds and depleted them to the point that we are ill-prepared - whether by an act of mother nature or further dramatic economic decline. It has used these techniques for years, with same result: more deficits. It now is "borrowing" from local government with little or no capacity to pay back the debt, despite overwhelming voter direction to do so.

We are running out of smoke to mask and cans to kick.

Our fiscal condition is not temporary and will never be stable until we face the above issue and address it squarely. In fact, the State Department of Finance already predicts a \$7 - \$8 billion deficit next fiscal year with "larger shortfalls projected in the out-years."

Every level of government needs to bring spending, however defined, into line with actual revenues. While spending needs to be realistic, there is also need for reform of our state and local finance structure that is now at the breaking point.

One bright spot in the State budget adoption last week was the last-minute removal of the proposal to take away Gas Tax revenues that would have decimated public works programs in cities across the state. The impact on Long Beach would have been nearly -\$8 million, out of which \$6.3m directly supports operations in the general fund. Further, Long Beach was successful in getting state approval to backfill Prop 1A take-aways with interest from the state-mandated subsidence fund, effectively keeping the general fund whole while maintaining long-term solvency of our subsidence fund.

The Redevelopment Agency, however, faces a sizeable challenge. While staff continues to assess the complete impacts of the State Budget, an estimated \$36 m in state takeaways for FY '10 and FY '11 will impact nearly every part of the City and strain operations like graffiti removal, street repairs and long-term incentives for development.

It is also important to keep in mind that the Legislature may return from their summer recess to find that State revenues have dipped further or the recovery is less robust, and will be asked to take additional action to stem the tide. That would put local governments squarely in the cross-hairs again before the end of calendar year 2009.

One other word of note; the City continues to aggressively pursue American Reinvestment and Recovery Act (ARRA) funding. It should be clearly noted, however, that use of these funds for on-going expenses when allowed would be irresponsible and contrary to previous stated Council priorities. For example, additional police officers funded through one-time increases to COPS grant funding levels would burden the City for all associated costs to carry those positions in the out years.

Taken in sum, these dynamics have made this year's budget an arduous process, to say the least. Not only does this create the expected policy challenge of crafting a budget in these difficult fiscal times but also a problem of simple logistics in compiling and assessing that data.

It is in this context that Long Beach is budgeting for its future. Because of the above conditions and the State's inability to face reality, Long Beach will face

annual deficits for the foreseeable future: \$11.5m in FY '11, and up to \$41m in FY '12, largely as a result of losses incurred by PERS in last year's stock market.

The word deficit is misleading because by State law, cities across California are required to balance their budgets each year. Long Beach will do so again this year, but we again will have to cut deeply into services as we have done for the past six years. This condition requires us to continue to look at our City programs and organizational structure differently – Manager Departments, elected officials and non-City Manager Departments alike.

The Manager's budget envisions new ways to deliver necessary services. We are at the point that we must question every program and see if it should be continued, either because the resources applied to it are inadequate to truly perform well or it can be performed more economically by the private sector. We should not commit the same offense for which we rail against Sacramento. To do so only prolongs the pain and wastes resources. The sooner we make the hard decisions, the better. It is the way any well-functioning private business would tackle their financial troubles

While not a pleasant prospect, the Manager's Budget anticipates 21 days of furloughs for all City employees should the employee groups not agree to equivalent savings. It is important to note that if all City employees agree to freeze their wages at current rates it would eliminate the need for any furlough days in the next fiscal year.

As I stated in last's years recommendations, I remain bullish on Long Beach. Despite the difficult times, if we manage well and squarely face reality we will prosper. If we can do what the State will not, we will provide a truly sustainable financial future for our City.

1.) Begin process of selected departmental operations for outsourcing for FY'11 and FY '12 savings

The Towing Fund is projected to run a structural deficit for FY '09 and the Fleet fund, with nearly \$33m in operational costs, is struggling to meet operating expenses. It is time to look at other ways to provide these services more efficiently.

2.) Eliminate funding for the Long Beach Museum of Art

In a letter sent this week, despite public comment and subsequent conversations to the contrary, the Museum Foundation Board notified the

City Manager that that they do not believe they are required to pay anything beyond \$158,000 in relation the \$3 million bond payment agreed to in 1999. As a result, the City simply does not have sufficient funds to cover the Museum's \$569,000 management fee for FY '10.

3.) Tidelands Fund decline and projected deficit in FY '11 and '12

The Tidelands fund is supported through a combination of sources, including oil revenues and the annual Harbor Department transfer. Declines in both those sources will create an operating deficit in FY '11 and '12, significantly impacting current models of public safety service delivery models and parks and recreation operations. To meet this challenge, the City will need to re-structure service delivery in the face of deficits.

4.) Elected official budget reductions

As in FY '09, elected officials were again asked and most complied with the request to cut their office budgets by 6%. It is also important to note that the Council is likely to consider the issue of equalization; that is, instituting the same base budget for each district, as part of the FY '10 deliberations.

5.) Expand partnerships with existing business to maximize sales tax generation opportunities

Sales tax revenue is the second largest source of revenue to the City's general fund.

As part of the Port's Clean Trucks Program, the City of Long Beach has recovered nearly \$500,000 in the last two quarters of FY '09 in sales tax revenue from the purchase of the new, "green" fleet of drayage trucks hauling to and from the Port.

Efforts to increase outreach and incentive programs for small and medium sized businesses to contract with the City of Long Beach and other creative ways to attract business and encourage spending here in the City need to continue to be part of our focus going forward.

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