



Legislation Details (With Text)

File #: 11-0206 **Version:** 1 **Name:** FM - FY11 1st Qtr Budget Performance
Type: Agenda Item **Status:** Approved
File created: 2/14/2011 **In control:** City Council
On agenda: 3/1/2011 **Final action:** 3/1/2011
Title: Recommendation to receive and file the Fiscal Year 2011 First Quarter Budget Performance Report. (Citywide)
Sponsors: Financial Management
Indexes:
Code sections:
Attachments: 1. 030111-R-17sr&att.pdf

Date	Ver.	Action By	Action	Result
3/1/2011	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2011 First Quarter Budget Performance Report. (Citywide)

This report reflects the City's Fiscal Year 2011 (FY 11) budget performance through December 31, 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

As of December 30, 2010, the City's Adjusted expenditure Budget for all funds was \$2.9 billion. With 25 percent of the year complete, year-to-date expenditures in all funds is at 14.5 percent of budget, or \$427.9 million. Year-to-date revenues for all departments and all funds were at \$525.7 million, or 25.0 percent of the \$2.1 billion in projected revenue.

The Adopted General Fund budget for FY 11 is \$380.4 million and the Adjusted General Fund Budget as of December 31, 2010 is \$380.7 million. With 25 percent of the fiscal year completed, the year-to-date General Fund spending reached \$87.2 million, or 22.9 percent of the budget. After the first round of estimates-to-lose, the General Fund departments are projecting to end the fiscal year at \$381.0 million, or \$284,936 over the Adjusted Budget. Approximately 22.2 percent of anticipated General Fund revenue has been collected year-to-date. General Fund revenue is currently projected to end the year at approximately \$7 million or 1.8 percent under budget. It is too early to determine if revenues will remain weak through the end of the Fiscal Year. At mid year, staff will present to Council options in the event revenues are below projections.

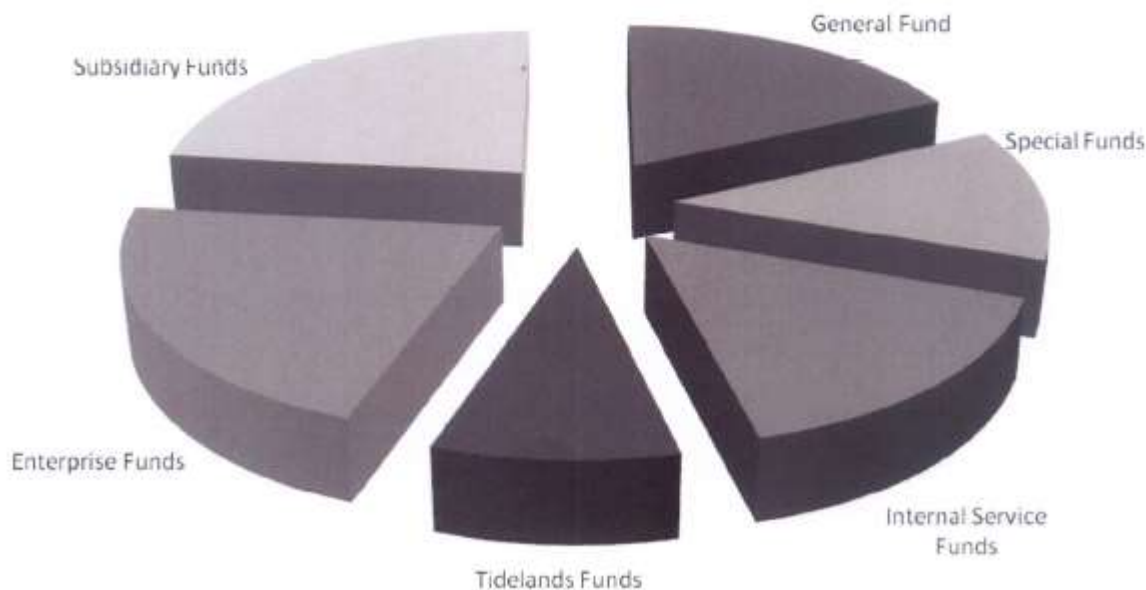
FY 11 Expenditures - All Funds

While it is not expected that department or fund expenditures will occur equally throughout the fiscal year, measuring fund performance in quarterly intervals allows for review of the revenue and

expenditure trends thus giving policymakers and administrators the ability to make the necessary changes to ensure a balanced budget.

The City's Adopted FY 11 Budget for all funds includes \$2.5 billion of annual funds, \$397.9 million of carryover (multi-year grants and capital project funds), prior year encumbrances (goods and services ordered in FY 10 but received in FY 11) and City Council-approved budget amendments, which combined as of December 30, 2010, bring the total Adjusted City Budget to \$2.9 billion. With 25 percent of the year complete, year-to-date expenditures in all funds is at 14.5 percent. A second quarter budget adjustment will be requested to accommodate higher pass-through expenditures to the State due to higher oil prices in Tidelands Oil Revenue Fund. Please see Attachment A for a breakdown of Citywide expenditures by fund.

Exhibit 1 – All City Funds by Fund Type



As illustrated in Exhibit 1 above, the City's 35 funds are grouped into six fund types comprising of the \$2.9 billion adjusted budget. Most of these funds are restricted, such as the Harbor Fund, Gas Fund and Tidelands Funds that are designated for specific and limited activities. The majority of core 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 12.9 percent of the entire Adjusted City Budget. For a discussion of notable fiscal performance in non-General Fund areas, please see the Other Funds section of this report.

FY 11 General Fund Revenue

While there is a tenuous economic recovery in the private sector, budgetary strains in the public sector are increasing as a result of lagging economic impacts. This can be attributed to the lag time of tax revenue impacted by the economic downturn and the escalating costs of employee compensation and pensions.

General Fund revenues are heavily dependent upon those parts of the economy hardest hit by the recession - the real estate market and consumer spending. These effects are most apparent in property tax revenue and natural gas utilization. Secured property tax is the single largest General Fund revenue. Although it appears that secured property tax revenue is higher than in FY 10, it must be noted that in 2010, Prop 1A allowed the State to "borrow" \$5.4 million in the first quarter of the fiscal year. Adjusting revenue to account for the State take-away reveals a 3 percent decline in secured property tax revenue. This reduction can be attributed to such factors as declines in assessed valuations and delinquencies. Recent data issued by the Los Angeles County Assessor's Office indicates that the assessed valuations for the City of Long Beach have declined by 2.2 percent and delinquencies are at approximately 3 percent. Additionally, within the two years, revenue from the Utility Users Tax on natural gas use and the pipeline franchise fee for natural gas has experienced declines of 29 and 25 percent, respectively. These declines can be attributed to declines in the cost of natural gas, and the volume of gas transported. On a positive note, the average price per barrel of oil during the first quarter was \$80/bbl, compared with the budgeted price of \$45/bbl.

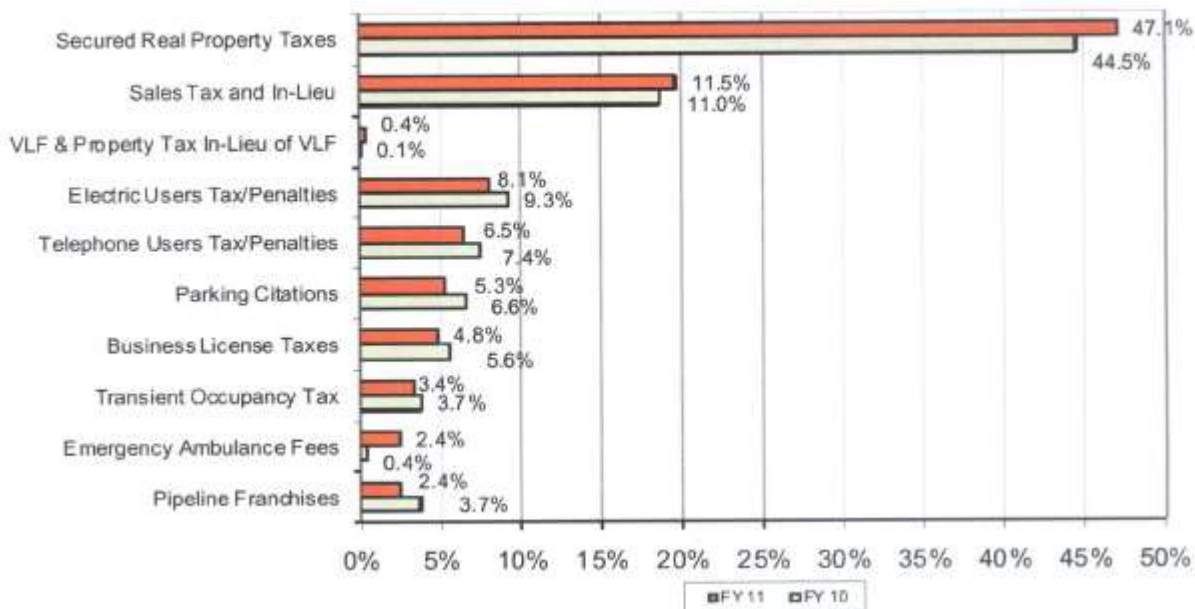
The Department of Financial Management continues to monitor revenue performance on a weekly basis and modifies forecasts based on evolving economic performance data. Current and projected revenue performance is based upon a variety of factors, and includes both structural and one-time revenues. It is important to note the risks inherent in projecting revenue, as the City has limited, if any, authority to affect certain revenue streams. The table below highlights performance through December 31, 2010 for selected General Fund revenues.

Revenue Source	FY 11 Adopted Budget	FY 11 YTD Revenue	YTD Rev as % of Adopted Budget	Notes
Secured Property Tax	\$67,612,269	\$26,974,318	39.9 %	The first of seven Secured Property Tax payments, comprising 40 percent of the County's estimate of the City's revenue, was received in December 2010. The payment is net of the \$2,050,505 administrative costs charged to the City.
Sales and Use Tax	\$38,416,162	\$11,244,939	29.3%	First quarter sales tax receipts, representing summer sales activity, demonstrated a 7.7 percent increase over the previous year due to increases in the construction, service stations and transportation categories.
In Lieu Sales Tax, (Triple Flip)	\$13,796,470	-	-	In Lieu Sales Tax (Triple Flip) is the repayment of the ¼ cent of the previous year 1-cent sales tax collections. Payments are received in January and May.

Revenue Source	FY 11 Adopted Budget	FY 11 YTD Revenue	YTD Rev as % of Adopted Budget	Notes
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax In Lieu of VLF	\$39,800,000	\$208,688	0.5%	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. Monthly VLF payments and In-Lieu VLF payments are expected to come in at budget.
Uplands Oil Transfer	\$6,870,000	\$1,717,600	25.0%	FY 11 revenue is budgeted based on an oil price of \$45.00/bbl. During the first quarter revenue for Wilmington Crude averaged \$80/barrel. The first quarter transfer was made based on budget. Transfers to the General Fund will take place on a quarterly basis, and will reflect higher than budgeted performance, to offset the negative impact of reductions in other General Fund revenue sources.
Utility Users Tax (UUT)	\$39,300,000	\$10,143,922	25.8%	Electric UUT collections are trending at budget. Telephone UUT collections are expected to come in at, or slightly above, budget. Natural gas UUT collections are anticipated to come in less than budget due to a decrease in overall consumption and gas commodity prices. Water UUT collections are trending at budget.
Parking Citations	\$14,100,000	\$3,029,744	21.5%	Parking citation revenue is not expected to meet budgeted levels due to residential parking improvement efforts, reduced street sweeping during the recent storms and the public's unwillingness to incur citations in a down economy.
Business License Tax	\$11,897,000	\$2,740,442	23.0%	Business recovery efforts and the annual CPI adjustment should lead to year-end collections approaching budget.
Emergency Ambulance Fees	\$9,100,000	\$1,364,702	15.3%	Prior year-end receivables were reversed at the beginning of the fiscal year. It is anticipated that factors such as reductions in Medicare/MediCal payments and the changing payee mix will negatively impact collections beyond initial budgeted expectations.
Transient Occupancy Tax	\$7,200,000	\$1,943,145	26.9%	Transient Occupancy Tax receipts are expected to perform above budgeted levels. Room rates are demonstrating growth over the same period in the previous year.
Pipeline Franchises	\$5,200,000	\$1,402,665	26.9%	The first quarter pipeline franchise payment reflected a 25% decrease in revenue over the previous year. This is attributed to both the cost of natural gas, and the volume of gas transported. Pipeline Franchises are expected to perform at, or slightly below, budget depending on fluctuations in gas costs and the volume of the demand from Long Beach electric generation plants.

A summary of the top 40 General Fund revenues is included in Attachment B. Exhibit 1 below shows the City's top 10 General Fund revenue sources in FY 11 as a percentage of total year-to-date General Fund revenue.

Exhibit 1 – Top 10 FY 11 General Fund Revenue Sources as a Percentage of the \$84.5 million Total Year-to-Date



FY 11 General Fund Revenue by Department

As of December 31, 2010, General Fund departments generated \$84.5 million or 22.2 percent of budgeted revenues. Among the top revenue producers were the Financial Management Department with \$5.5 million, the Public Works Department with \$2.9 million, the Fire Department with \$2.5 million, the Parks, Recreation & Marine Department with \$2.0 million, and the Police Department with \$1.8 million.

As noted earlier, with 25 percent of the year complete and 22.2 percent of revenue collected, actual revenues are trailing below budget. The Department of Financial Management is working closely with General Fund departments to maximize revenue as much as possible.

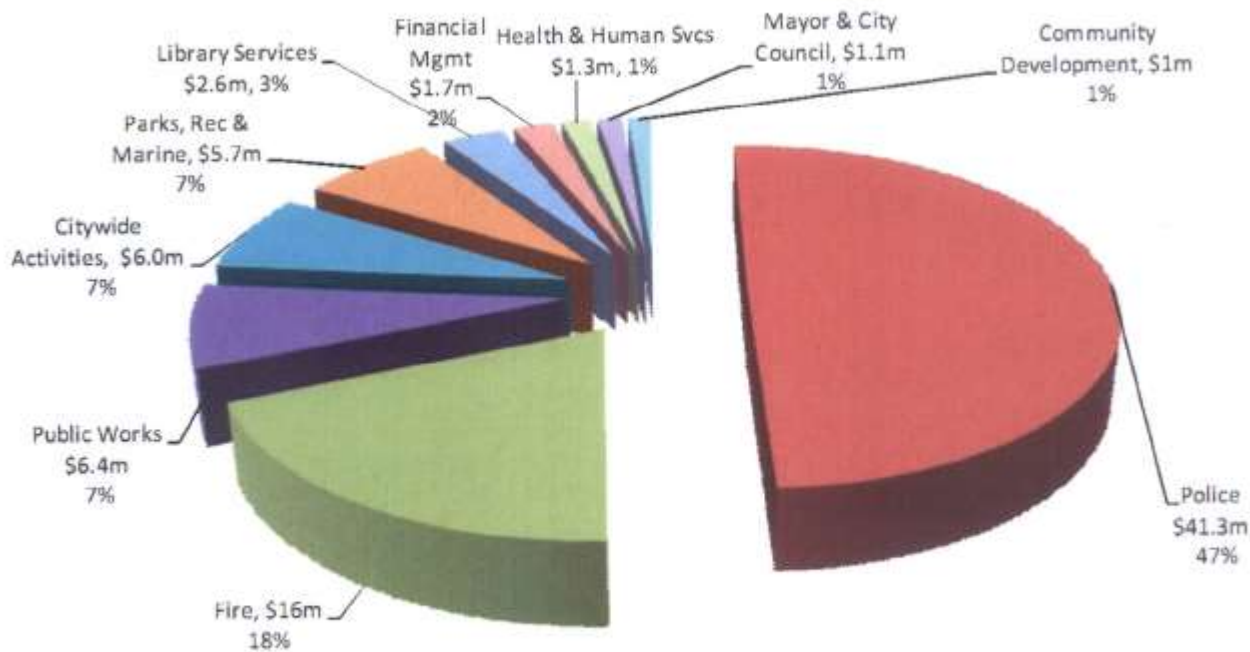
Attachment C provides a more detailed breakdown of General Fund revenue performance and variances by department. Many of the departmental variances are captured in the footnotes to this attachment.

FY 11 General Fund Expenditures by Department

Although General Fund expenditures are estimating to come in slightly over budget, steps will be taken to address the issue.

Exhibit 3 below shows the City's Top 10 General Fund year-to-date expenditures in FY 11 by department as a percentage of total General Fund expenditures. In aggregate, the Top 10 represents \$82.3 million, or 95.5 percent, of year-to-date General Fund expenditures. Together, Police and Fire account for 66 percent of General Fund expenditures. The Police, Fire, Public Works, Parks, Recreation and Marine, and Library Services departments account for 83 percent of General Fund expenditures.

Exhibit 3 – Largest FY 11 General Fund Expenditures Year-to-Date by Department, as a Percentage of the \$87.2 million Total Expenditures.



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

Other Fund Highlights

The following section provides a discussion of notable FY 11 fiscal performance in funds other than the General Fund.

Civic Center Fund (Restricted)

The Civic Center Fund is used to maintain City Hall, the Main Library, Police headquarters and related parking operations. While the Civic Center Fund is solvent in FY 11, it faces the increasing maintenance burden of deteriorating facilities with no additional funding. Additionally, the cost of South Coast Air Quality Management District (SCAQMD) requirements to reduce emissions produced by boiler equipment, estimated at \$1.2 million, will strain the Civic Center Fund in FY 12 and FY 13. The Civic Center Fund is supported primarily by charges to the General Fund. Other funding options, or Civic Center cost reductions, must be explored as part of the ongoing effort to address the General Fund deficit in FY 12 and beyond.

Health Fund (Restricted)

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. Since the Health Fund relies primarily on revenues from State sources, the Fund has experienced significant revenue declines in recent years. The Health Department has been making numerous cost-saving reductions to offset these revenue declines. Since FY 09, the Health Department has made over \$5 million in expenditure reductions and reduced 79 positions in

programs and staffing.

After three years of significant restructuring, the Health Fund continues to improve and adjust to the economic conditions affecting its operations. The Health Department has been able to repay a portion of the \$3 million General Fund loan with a \$250,000 payment in FY 10 and is on schedule to make quarterly FY 11 payments of \$75,000 to further pay down the loan. The Department expects to continue repaying the General Fund loan and end the year with a positive fund balance.

Towing Fund (Restricted)

The Towing Fund supports towing responses to clear vehicle accidents, impound vehicles and the sale of unclaimed vehicles. The Towing Fund began FY 11 with a balance of \$612,471, which is a decline from the FY 10 beginning fund balance of \$1 million. In an effort to prevent the fund balance from declining further, the FY 11 transfer to the General Fund has been reduced to \$3 million from the FY 10 budgeted transfer of \$3.4 million.

The Towing Operations Division will continue to use staff work schedules effectively in order to reduce the use of contract tows. Additionally, the Bidder Card fee, which was increased from \$5 to \$20, is expected to generate greater revenue in lien sales. However, the Towing Fund revenue is trending lower than this same time last year. The Department of Financial Management will continue to work closely with the Towing Operations Division to ensure the Towing Fund's ability to meet its budgeted transfer in FY 11.

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

On May 1, 2007, the voters approved the Police and Fire Public Safety Oil Production Tax (Prop H), a special tax of 25 cents (with an annual CPI, currently yielding 27 cents per barrel) on every barrel of oil produced, to be used specifically for police officers, firefighters and related costs including, but not limited to, equipment, facilities and training. In FY 11, Prop H started the fiscal year with a fund balance of \$195,704. This fund supports the cost of nine Firefighters, ten Motor Officers, and associated vehicles. In the first quarter of FY 11, Prop H revenue exceeded expenditures and is projected to have a positive and slightly higher fund balance at the end of the current fiscal year, which would enable a reimbursement to the General Fund for the amount carried over from FY 10.

Since 2007, oil production has dropped an average of 4 percent annually. The downward trend of oil production will necessitate the Police and Fire Departments monitor their budget to ensure that their expense is in line with revenue.

Conclusion

The first quarter of FY 11 demonstrates the difficulty the City faces in maintaining a balanced budget and weathering the changes of the economy. Declining departmental revenues and the City's major revenue streams will be monitored closely throughout the fiscal year. To ensure the FY 11 budget ends the year in balance, we must maintain a firm position of fiscal restraint in all actions taken. The Department of Financial Management will continue working closely with departments to implement viable solutions to address anticipated revenue shortfalls and expenditure increases.

City Council action on this matter is not time critical.

Approve recommendation.

WILLIAM YEOMANS
INTERIM DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER