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**Title:** Recommendation to refer the Fiscal Year 2006 Third Quarter Budget Performance Report to the Budget Oversight Committee. (Citywide)

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Date	Ver.	Action By	Action	Result
9/19/2006	1	City Council	approve recommendation and refer	Pass

Recommendation to refer the Fiscal Year 2006 Third Quarter Budget Performance Report to the Budget Oversight Committee. (Citywide)

This report provides an update on the City's Fiscal Year 2006 (FY 06) budget and operational performance through June 30, 2006. The report covers a broad spectrum of financial information for all funds and departments with multi-year comparisons, charts and graphs to provide a clear picture of the City's financial situation. While the focus of the financial report is the General Fund, exceptional performance (both positive and negative) in other funds is highlighted where applicable.

Summary

FY 06 is the third year of the City's Financial Strategic Plan (Plan). As such, over \$92 million in structural budget solutions have been included in the General Fund and related funds budgets over the past three fiscal years. These solutions, which have included the reduction of programs, services and positions, as well as increased revenue and cost recovery, have placed a substantial strain on the organization as it downsizes and becomes more efficient. While resources required to provide public safety, infrastructure maintenance, library, recreation and other general government services have been reduced significantly, public demand for services continues to grow. As a result, departments' ability to remain within appropriation limits while providing high quality service will be a continued challenge as the City implements the Plan and restores equilibrium between the services it provides and the resources available to support them. As of June 30, 2006, the total adjusted General Fund expenditure budget was \$368 .0 million, with budgeted revenue of \$360.0 million. The difference between budgeted revenue and expense reflects the use of fund balance. After nine months of the fiscal year, overall revenue and expenditures are on target. With 75 percent of the fiscal year complete, approximately 80.5 percent of anticipated General Fund revenue has been collected . During the same period, approximately 74.0 percent of the adjusted General Fund budget has been expended. The total Adjusted City Budget for all funds as of June 30, 2006 was \$2.697 billion. With 75 percent of the year complete, expenditure performance in all funds is at approximately 54.6 percent year-to-date.

Estimates-to-close for both revenue and expense provide an important guidepost for future budget decisions both in the current year and as the City plans for next year's budget. According to department estimates, General Fund revenue is expected to come in at 103.3 percent of the adjusted budget, which is \$11.7 million more than originally projected. General Fund expenditures are expected to come in at 101 percent of the current adjusted budget. While performance to date and estimates-to-close are promising, it is critical to maintain the utmost fiscal restraint as several million dollars of expected, but still to be achieved optimization related cost savings, one-time revenue and unbudgeted expenses related to newly negotiated compensation increases put increased pressure on the budget.

Focus on Results (FOR) Long Beach is a commitment to performance management designed to help departments improve operational efficiency and effectiveness, and to provide an improved means by which the City can communicate public value created by its programs and services. By creating a direct link between program results and the budgets that support them, FOR Long Beach will give the City the tools to support decisions that allocate scarce resources to the highest priority issues. By renewing departments' focus on the results they produce for the community, it will be easier to articulate the value created to the City Council and community. As this is the first year of FOR Long Beach implementation, data collection systems and analysis are developing and will be implemented over time. Nonetheless, significant progress has been made toward the full integration of the principles and management tools of FOR Long Beach into the daily business of the City. This third quarter report, as with all quarterly budget and operational performance reports going forward, includes Highlights of Departmental performance.

#### FY 06 General Fund Revenue

Current and projected revenue performance is based upon a variety of sources, both structural and one-time. We must recognize the risks inherent in projecting revenue, many of which the City has limited, if any, authority to affect. We must also consider that the FY 06 budget was balanced using some one-time revenues, including the sale of several properties (i.e., City Hall East, State Building parking lot and the Video Choice property), with the sale of only one of the four properties now being slated to take place in FY 06. Therefore, the following update in revenue performance must be reviewed within this fluid context.

Overall, year-to-date General Fund revenue is \$289.7 million, or approximately 80.5 percent of total projected revenue, and is in line with the expected performance after three quarters of the year. Total General Fund revenue is estimated to finish the fiscal year at 103.3 percent, or \$11.8 million higher than originally budgeted. The table below highlights year-to-date performance for selected General Fund revenues:

(See letter for charts)

General Fund revenue estimates-to-close are at \$371.7 million, which is 3.3 percent more than the Current Adjusted Budget. This equates to approximately \$11.8 million in additional revenue, much of which is one-time (e.g., Upland Oil transfer, Office Depot Settlement and prior-year secured real property tax payments.) A summary of the top 40 General Fund revenues with estimates-to-close is included in Attachment A, and a year-to-year (FY 05 to FY 06) comparison of the top 15 General Fund revenues is included in Attachment B. Exhibit 1 below shows the City's top 10 General Fund revenue sources in FY 06 as a percentage of total General Fund revenue.

(See letter for charts)

Please see Attachment C for a breakdown of General Fund revenue with estimates-to-close by department.

#### FY 06 General Fund Expenditures

The Adopted General Fund budget for FY 06 was \$362.1 million . As of June 30, 2006, the total adjusted General Fund budget was \$368.0 million, including the City Council approved budget adjustments totaling approximately \$5.9 million primarily due to added grant funded or revenue offset programs or projects. The overall year-to-date General Fund spending is 74 percent of budget. Department estimates-to-close are in line with the adjusted budget at 101 percent of the current adjusted budget. Necessary budget adjustments will be made during the fourth quarter of the fiscal year, including salary adjustments and summer programs. Attachment D provides a listing of all departments' year-to-date General Fund expenditure performance with estimates-to-close.

#### FY 06 General Fund Expenditures by Department

Though there were few expenditure performance exceptions at the department level, those worth noting include :

- Citywide Activities reflects spending at 148 .1 percent of budget year-to-date, with an estimate-to-close of 176 .1 percent. This is primarily due to the fact that the Adjusted Budget reflects anticipated savings from optimization studies. These structural savings are still anticipated, but will likely be realized fully by next fiscal year. The Citywide Activities budget will be supported by using one-time revenues.
- The Department of Planning and Building incurred unanticipated increased construction costs related to the major overhaul of the Development Services Center. Due to these costs, the Department is estimating to end the year over appropriation by approximately \$365,000. The Department will submit a Fourth Quarter Budget Adjustment to City Council to increase their current allocation.

At mid-year, the majority of General Fund expenditures have come from departments providing public safety services. Of the \$272.3 million expended to date, the Police Department (44.8 percent) and Fire Department (18.0 percent) comprise 62.8 percent of the total General Fund year-to-date expenditures. Exhibit 2 below shows the largest departments as a percentage of General Fund year-to-date expenditures.

(See letter for graphs)

Attachment E displays General Fund spending at the department level as compared to the departments' current adjusted budget, including an FY 06 to FY 05 comparison. FY 06 General Fund expenditures total 74.0 percent of the \$368.0 million budget compared to 74.3 percent of the \$377.9 million budget for the same time period in FY 05.

#### FY 06 Expenditure Performance - All Funds

The City's Adopted FY 06 Budget for all funds includes \$2.069 billion of annual funds, carryover (multi-year grants and capital projects funds) of \$245.4 million, prior year encumbrances (goods and services ordered in FY 05 but received in FY 06), and mid-year City Council approved budget amendments. Combined, the total Adjusted City Budget as of June 30, 2006 was \$2.697 billion. Please see Attachment F for a breakdown of Citywide expenditures by fund.

While it is not expected that department or fund expenditures would occur equally throughout the fiscal year or be fully expended in the current fiscal year due to the inclusion of multi-year projects, monitoring the rate of expenditure is a helpful indicator of resource management. With 75 percent of the year complete, expenditure performance in all funds is at approximately 54.6 percent year-to-date. Overall, there are no fund performance anomalies to note.

## Other Significant Issues

### Oil Revenue

Wilmington Crude prices have remained strong, with the price at \$61 .85/bbl, as of June 27, 2006. This results in additional payments to the State, as well as increased revenue for the Tidelands Fund and General Fund. The Long Beach Gas and Oil Department estimates that the transfer to the Tidelands Fund will increase from \$11.2 million to \$15.6 million, while the transfer to the General Fund will increase from \$10.2 million to \$13 .3 million.

### Focus on Results - Operational Performance

Focus on Results (FOR) Long Beach is the City's comprehensive performance management program, which is in its first year of implementation. The goal of the program is to improve the efficiency and effectiveness of City operations by aligning City operations around the City Council's and community's priorities and increasing accountability at all levels of the organization. The program was developed to provide the community, elected officials, City management, and department staff with the tools to achieve key priorities through an integrated planning, budgeting, management, reporting, evaluation and decision making system. A central component of the program is performance measurement, and departments have been tracking performance information on key output measures since the beginning of FY 06. This will be expanded in the coming year with the implementation of a tracking system. This quarterly report includes Highlights of Departmental performance through June 2006 in Attachment G.

### FY 07 General Fund Outlook

On August 14, the Mayor released the City Manager's FY 07 Proposed Budget to the City Council. The FY 07 Proposed Budget reflects the elimination of the structural deficit. As was anticipated two years ago by staff, the passage of State Proposition 1A has prevented the State from usurping local revenues and in turn has made prediction of City funding more certain. Staff is confident that the local economy will continue its solid growth, and that key City revenues will also remain strong. Future commitments made by the City relative to labor contracts, particularly for Police, could create a new structural deficit if current spending is not moderated and available resources saved for these future liabilities.

### Conclusion

Despite the positive year-to-date performance and estimates-to-close, there is reason to maintain a firm position of fiscal restraint. We must be ever mindful of the tenuous nature of General Fund revenue sources, the current-year budgetary reliance upon one-time revenue from planned land sales and some of the current year planned savings from optimization studies will likely not be realized until next fiscal year. Also, the judicious use of additional one-time resources earned this fiscal year must be allocated toward the City's highest priority one-time uses (e.g. capital projects, pay-down existing debt or other non-recurring needs). Looking to the future, we must not lose sight of the fact that the new Police Officers Association labor agreement includes a wage adjustment to median of the ten comparable police agencies in September 2009; the actual amount of that wage

increase will not be known until that time but is anticipated to be a substantial double-digit increase to General Fund costs that is anticipated to absorb most, if not all, of the projected net structural revenue growth.

City Council action on this matter is not time critical.

There is no fiscal impact associated with the recommended action.

Approve recommendation.

MICHAEL A. KILLEBREW  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

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GERALD R. MILLER  
CITY MANAGER