



Legislation Details (With Text)

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Title: Recommendation to direct City Manager to work with the Fire and Police Departments to absorb the projected Fiscal Year 2010 Proposition H Fund shortfall within existing Fiscal Year 2010 Police and Fire Departments General Fund budgets to ensure a year-end balance in the Proposition H Fund. (Citywide)

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|----------|------|--------------|------------------------|--------|
| 5/4/2010 | 1 | City Council | approve recommendation | Pass |

Recommendation to direct City Manager to work with the Fire and Police Departments to absorb the projected Fiscal Year 2010 Proposition H Fund shortfall within existing Fiscal Year 2010 Police and Fire Departments General Fund budgets to ensure a year-end balance in the Proposition H Fund. (Citywide)

On March 9, 2010, the City Auditor presented the annual financial audit of the Police and Fire Public Safety Oil Production Tax, approved by Long Beach voters as Proposition H (Prop H) on May 1, 2007. The City Auditor's report identified a \$449,459 General Fund subsidy of Prop H expenses. In addition, on March 16, 2010, the Department of Financial Management provided a report on the performance of the Prop H Fund to the Budget Oversight Committee (BOC) highlighting the structural deficit that currently exists in the Fund due to increasing labor costs and reduced oil revenue resulting from declining oil production. Please also note that since the date of the BOC meeting, the second quarter of Prop H revenue was received by the City from the oil producers, which reflected a further decline in production than experienced in the first quarter, thereby increasing the projected current-year Fund deficit to \$735,692. The information below presents updated expenditure- and revenue projections in the Prop H Fund, reflecting actual revenue performance to date.

Oil production in Long Beach has been declining since the passage of Prop H in 2007. On January 26, 2009, the Department of Gas and Oil submitted to the BOC a report indicating the current and projected decline in oil production and the potential impact on Prop H funding. As noted in the City Auditor's report, from June 2007 through December 2009, quarterly oil production in Long Beach declined by 9.5 percent, thereby reducing the amount of Prop H revenue to the City. Table 1 below demonstrates the annual decline in oil production since FY 06, including estimated continued declines for FY 10 and FY 11.

Table 1 – Oil Production in Long Beach with Year-Over-Year Declines – FY 06 – FY 11

| Fiscal Year | Barrels Produced | YOY % Decline |
|-------------|------------------|---------------|
| 2006 | 14,898,534 | n/a |
| 2007 | 14,729,182 | (1.1%) |
| 2008 | 14,291,942 | (3.0%) |
| 2009 | 13,543,832 | (5.3%) |
| 2010* | 12,680,321 | (6.3%) |
| 2011* | 12,055,804 | (5.0%) |

*Estimated

In addition, it is anticipated the situation will likely worsen in FY 11 as public safety costs continue to rise, while oil production remains flat, or continues to decline, with a projected FY 11 structural deficit of \$1,088,821 (as shown on Table 2).

Table 2: Prop H Revenue and Expenditures, FY 10 and FY 11 Estimates

| Prop H | FY 2010 Estimate-to-Close | FY 2011 Base Budget |
|--------------|------------------------------|------------------------|
| Revenue | \$3,426,387 | \$3,255,067 |
| Expenditures | (\$4,162,079) | (\$4,343,888) |
| (Deficit) | (\$735,692) | (\$1,088,821) |

One of the key tenets of Prop H support was that the enhanced public safety services funded by the new .27 cents per barrel tax would be self-supporting and not require a subsidy from the General Fund or other funding sources. However, the projected deficit in the Prop H Fund is likely to continue as lower revenue from naturally declining oil production is not sufficient to support the salary increases contained in public safety labor agreements. Given price and other factors in the volatile oil market, the City is unlikely to experience positive growth in Prop H revenue, or a return to levels required to cover rising labor costs.

As discussed with the BOC on March 16, 2010, the current shortfall of \$735,692 (initially projected at \$449,459) will be absorbed within existing FY 10 Police and Fire Department General Fund budgets, to fully fund the public safety expenses associated with Prop H in FY 10. Please note this is a one-time solution only and will not address the projected FY 11 structural deficit.

As the projected FY 11 General Fund Deficit is \$18.5 million, it does not appear there will be funding available to continue subsidizing these costs beyond FY 10. As such, a structural deficit solution will need to be implemented in FY 11 to balance the Prop H Fund and address the projected \$1.1 million estimated deficit in FY 11.

This matter was reviewed by Assistant City Attorney Heather A Mahood on April 4, 2010 and Budget and Performance Management Bureau Manager David Wodynski on March 26, 2010.

City Council direction is requested on May 4, 2010, to allow sufficient time for Police and Fire Department staff to work with the City Manager to ensure the Prop H Fund ends the fiscal year in balance.

The FY 10 estimated expense of \$4.2 million includes all Police and Fire costs associated with Prop H staffing. Current estimates reflect Prop H revenue will total \$3.4 million, reflecting a \$735,692 potential shortfall in the Fund in FY 10. As there has been a greater number of public safety vacancies in the current year than originally anticipated, the current salary savings will allow the Police and Fire Departments to manage these costs within their FY 10 General Fund budgets to ensure Prop H ends the year in balance.

As Prop H expenses in FY 11 will continue to outpace revenue, potentially leading to a \$1.1 million

shortfall in FY 11, a structural solution to address the projected deficit will be included within the City Manager's Proposed FY 11 Budget.

Approve recommendation.

LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

NAME
TITLE

APPROVED:

PATRICK H. WEST
CITY MANAGER