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Date	Ver.	Action By	Action	Result
2/19/2008	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2008 First Quarter Budget Performance Report. (Citywide)

This report provides an update on the City's Fiscal Year 2008 (FY 08) budget and operational performance through December 31, 2007. 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

The total Adjusted City Budget for all funds as of December 31, 2007 was \$2.74 billion. With 25 percent of the year complete, expenditure performance in all funds is at approximately 18.8 percent year-to-date. The total adjusted General Fund expenditure budget was \$393.2 million, with budgeted revenue of \$392.6 million. The difference between budgeted revenue and expense reflects carry over appropriations. After the first three months of the fiscal year, based on current appropriation authority, overall expenditures and revenues are on target, however, some departmental performance warrants closer review and possible corrective action. With 25 percent of the fiscal year complete, approximately 22.3 percent of anticipated General Fund revenue has been collected.

FY 08 General Fund Revenue

Current and projected revenue performance is based upon a variety of factors, and includes both structural and one-time revenues. It's important to note the risks inherent in projecting revenue, as the City has limited, if any, authority to affect certain revenue streams. Overall, year-to-date General Fund revenue is \$87.5 million, or approximately 22.3 percent of total projected revenue, and is close to the expected performance after the first quarter of the year. Performance to date numbers for revenue are above FY 07 primarily due to the posting of transfers from other funds to the General

Fund earlier in the fiscal year. The table below highlights year-to-date performance for selected General Fund revenues. It is important to note that certain revenue streams are performing under budget; however, it is anticipated that increases in other key General Fund sources, including Upland Oil revenues, may be able to offset these reductions.

(Revenue Source chart appears here in staff report. Unable to reproduce. Please see the "Attachement" document.)

A summary of the top 40 General Fund revenues is included in **Attachment A**, and a year-to-year (FY 07 to FY 08) comparison of the top 15 General Fund revenues is included in **Attachment B**. Please also see **Attachment C** for a breakdown of General Fund revenue by department, which notes any exceptional department performance. Exhibit 1 below shows the City's top 10 General Fund revenue sources in FY 08 as a percentage of total year-to-date General Fund revenue.

Exhibit 1 - Top 10 FY 08 General Fund Revenue Sources as a Percentage of the \$87.5 million Total Year-toDate

(General Fund Revenue Source chart appears here in staff report. Unable to reproduce. Please see the "Attachement" document.)

FY 08 General Fund Expenditures

The Adopted General Fund budget for FY 08 was \$391.9 million. As of December 31, 2007, the total adjusted General Fund budget was \$393.2 million, due to carry-over for prior year encumbrances. The overall year-to-date General Fund spending is \$93.9 million, or 23.9 percent of budget, with 25 percent of the Fiscal Year complete. This trend is the result of several cost savings measures implemented by the City Manager early in the fiscal year, including department-specific vacancy savings targets, a management hiring freeze, limits on annual merit increases for management, a freeze on out-of-state travel and a freeze on purchasing tables at community events.

FY 08 General Fund Expenditures by Department

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

> The Police Department is at 24.6 percent of budget. The department has made a concerted effort to reduce overtime expenses and is currently spending 40 percent less in overtime than in FY 06. However, it is important to note that even this reduced level of overtime spending will likely exceed the Department's FY 08 overtime budget by approximately \$3 to \$4 million.

> The FY 08 Adopted Budget reflects a \$650,000 reduction in the Civil Service Department's budget in anticipation of the elimination of duplicative functions. While the Department has taken numerous actions to reduce its expenditures, such as eliminating certain testing requirements and maintaining vacant positions, as of December 31, 2007, it is estimated that the Department will close at \$2,489,808 or 114 percent above their adjusted budget based on current trends. A department cannot legally exceed its adopted appropriations, therefore further cost reductions must be implemented to reduce expenses.

Exhibit 2 - Largest FY 08 General Fund Expenditures Year-to-Date by Department, as a Percentage of the \$93.9 million Total Expenditures.

(General Fund Expenditures Year-to-Date by Department chart appears here in staff report. Unable to reproduce. Please see the "Attachment" document.)

As expected, the majority of General Fund expenditures are comprised of public safety services. Of the \$93.9 million expended to date, the Police Department (47.6 percent) and Fire Department (18.4 percent) comprise 66.0 percent of the total General Fund year-to-date expenditures. Exhibit 2 above shows the largest departments as a percentage of General Fund year-to-date expenditures.

Attachment D provides a listing of all departments' year-to-date General Fund expenditure performance. **Attachment E** displays General Fund spending at the department level as compared to the departments' current adjusted budget, including an FY 08 to FY 07 comparison. FY 08 General Fund expenditures total 23.9 percent of the \$393.2 million budget, compared to 25.3 percent of the \$378.7 million budget for the same time period in FY 07.

FY 08 Expenditure Performance - All Funds

The City's Adopted FY 08 Budget for all funds includes \$2.3 billion of annual funds, carryover (multi-year grants and capital projects funds) of \$379.9 million, prior year encumbrances (goods and services ordered in FY 07 but received in FY 08), and Council approved budget amendments. Combined, the total Adjusted City Budget as of December 31, 2007 was \$2.74 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 25 percent of the year complete, expenditure performance in all funds is at approximately 18.8 percent year-to-date. This includes the Harbor and Redevelopment Funds currently performing at 10.5 percent and 22 percent, respectively. Overall, there are no additional fund performance issues to note.

Other Significant Issues

State Budget Impacts

Long Beach's financial outlook is influenced by multiple factors, including national and local economic trends. The State of California is expected to experience relatively modest growth in personal income and wage and salary jobs over the coming years largely due to a loss in jobs in the housing and banking sectors. During the remainder of FY 08, California will continue to experience declines in home sales and new construction and an increase in the number of foreclosures resulting from the national and regional housing slump related to the subprime mortgage crisis. California is currently experiencing record numbers of foreclosures and has one of the highest foreclosure rates in the country.

In addition, the State is grappling with a significant budget deficit in the current and future fiscal years. On January 10, 2008, the Governor invoked Proposition 58, declaring a fiscal emergency in the current fiscal year and calling a special session of the Legislature to address its mid-year \$3.3

billion budget gap. Despite the protections that local governments were afforded in the Proposition 1 A constitutional amendment, the State still has the ability to borrow property tax, gasoline tax and State grant funds, which could create a significant hole in Long Beach's key General Fund and grant revenues in FY 08, FY 09 and beyond. The City is currently estimating a \$500,000 decrease in state grant funds to the Health Department for a variety of community health services in FY 08. In addition, the Governor has recommended to delay \$3.8 million of gasoline tax payments to the City, representing four month of payments, until September 2008. While the payments would still be made to the City within the same fiscal year, such a delay may cause unnecessary slowdowns in planned street repair work. While these revenue sources can only be borrowed twice in ten years and must be paid back with interest within three years, even the temporary loss of these revenue streams would significantly impact the City's ability to provide core services. Redevelopment funds are not protected by Proposition 1A provisions and could also be subject to borrowing, thereby directing yet another revenue source away from the City. The Department of Financial Management is closely monitoring the proposals under consideration by the Legislature for the current year, and will report back on any local impacts.

Police Department Overtime

Overtime containment is a Department-wide effort and numerous management controls, above and beyond those recommended in the City Auditor's Efficiency Report, have been institutionalized to reduce the use of overtime. Managers and supervisors have been empowered to identify and implement alternatives to address workload issues previously requiring overtime. As mentioned earlier, through the first quarter of FY 08, the Department has achieved an overtime decrease of over 40 percent, which validates the effectiveness of efforts to date. While future emergency needs cannot be predicted, the trend is very positive.

FY 08 General Fund Vacancy Savings Targets

Looming economic challenges and state budget issues require that the City implement tighter fiscal controls to manage department budgets and ensure that the General Fund remains in balance. On November 9, 2007, the City Manager transmitted FY 08 General Fund Vacancy Savings Targets to departments. Realization of these savings is essential to maintaining fiscal balance and mitigating the possible impacts of the State's fiscal emergency described above, among other factors.

As such, in the near future the Department of Financial Management will request City Council approval of a budget adjustment to reduce appropriations in certain City Manager-directed departments to formally implement these reductions.

Conclusion

General Fund revenues and expenditures are generally within budget expectations through the 1st Quarter; however, numerous financial challenges exist that may hinder our ability to end the fiscal year in balance. These include revenues impacted by the slowing national and regional economy, forthcoming solutions to the State's current year budget deficit, and certain departmental expenditure trends that will exceed the adopted budget. These challenges make it imperative that we maintain a firm position of fiscal restraint. Looking to the future, we must not lose sight of the fact that the City must also address its existing retiree health care commitments, ongoing labor negotiations, the approved Police Officers Association labor agreement, and critical infrastructure needs including remediating our aging facilities, streets, sidewalks and other infrastructure systems.

City Council action on this matter is not time critical.

There is no fiscal impact associated with the recommended action.

Approve recommendation.

Lori Ann Farrell
Director of Financial Management/CFO

NAME
TITLE

APPROVED:

PATRICK H. WEST
CITY MANAGER