



Legislation Text

File #: 09-0019, **Version:** 1

Recommendation to receive and file the Fiscal Year 2008 Year-End Budget Performance Report; and

Concur with the Budget Oversight Committee to transfer \$3 million in General Fund ending fund balance into the Budget Stabilization Fund to assist with the FY 09 impacts of the economic crisis. (Citywide)

This report reflects the City's Fiscal Year 2008 (FY 08) budget performance through September 30, 2008. The information provided is unaudited as the audit for FY 08 will not be completed until approximately March 2009.

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

The FY 08 Adopted Budget totaled \$2.7 billion for the City's 22 departments, and was later amended to \$3.3 billion during the fiscal year by the City Council, mostly due to the increased payments to the State for increased oil revenues, Redevelopment, and Housing Development. Of that amount, \$391.9 million comprised the General Fund budget, which was subsequently increased to \$392.3 million during the fiscal year, to provide core municipal services such as public safety, public works, recreation, and library services.

As of fiscal year-end, actual expenditures for all departments and all funds are \$2.6 billion. Revenues for all departments and all funds are \$2.7 billion. Unspent grant and capital project funds will be carried forward into subsequent fiscal years to support multi-year projects or grant-funded activities. For the General Fund, actual expenditures for all departments were \$388.8 million, or \$3.4 million less than the Adjusted Budget of \$392.2 million, primarily due to savings generated through vacancies. Actual General Fund revenues for all departments totaled \$400.1 million.

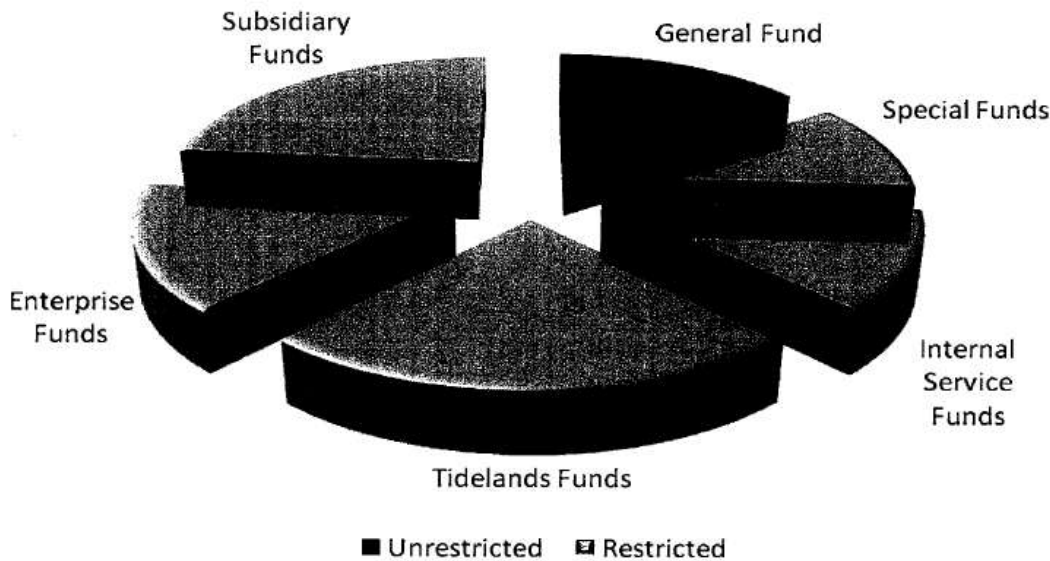
FY 08 was the fifth year of the City's Financial Strategic Plan (Plan). Approximately \$107.6 million in structural budget solutions were included in the General Fund and related fund budgets from FY 04 - FY 08, \$5.6 million of which were implemented in FY 08. These solutions, which have included the reduction of programs, services and positions, as well as increased revenue and cost recovery, have placed a significant strain on the organization as it has significantly downsized operations to focus primarily on basic core functions. After four years of significant budget reductions, departments were particularly challenged in FY 08 to contain expenses within appropriations.

To assist departments in ending the year in balance, numerous measures were implemented by the City Manager early in the fiscal year including instituting a freeze on management hiring, out-of-state travel and purchase of tables at community events. In addition, a savings target was assigned to each City Manager-led department in the General Fund to help generate savings.

FY 08 Expenditure Performance - All Funds

The City's Adopted FY 08 Budget for all funds includes \$2.7 billion of annual funds, \$361.6 million of carryover (multi-year grants and capital projects funds), prior year encumbrances (goods and services ordered in FY 07 but received in FY 08) and mid-year City Council approved budget amendments of \$620.1 million. Combined, the total Adjusted City Budget as of September 30, 2008 was \$3.3 billion. Please see Attachment A for a breakdown of Citywide expenditures by fund.

Exhibit 1 – All City Funds by Fund Type



As illustrated in Exhibit I above, the City has 37 funds divided into six fund types that make up the \$3.3 billion budget. Most of these funds are restricted funds such as the Harbor Fund, Gas Fund and Tideland Funds that are designated for specific and limited activities. The majority of community services provided in the City such as police and fire services, libraries and parks come from the General Fund, which comprises only 14 percent of the entire City budget.

General Fund

FY 08 Revenue

As of fiscal year-end, \$400.1 million of General Fund revenue was received. Year-end revenues were \$9.7 million (or 2.5 percent) higher than the Adjusted Budget due primarily to increased oil prices. General Fund revenues such as Secured Property Tax, Real Property Transfer Tax, Transient Occupancy Tax and Motor Vehicle In-Lieu performed below budgeted levels due to the current economic slowdown. Despite these major declines, General Fund revenue performed above budget due primarily to increased Uplands Oil revenue related to record oil prices in FY 08 and the receipt of one-time revenue from the Sempra Settlement.

The table below highlights FY 08 performance for selected General Fund revenues:

Revenue Source	FY 08 Adjusted Budget	FY 08 Year-End Actuals	Revenue as % of Adjusted Budget	Notes
Secured Property Tax	\$67,500,000	\$65,417,653	96.9%	The final secured property tax distribution from the County was received in August. The total year-end payments are net of administrative costs charged to the City, which are being disputed. Actuals are lower than budget due to the current slowdown in the housing market.
Real Property Transfer Tax	\$2,000,000	\$1,094,517	54.7%	Receipts demonstrated a decline below budgeted projections due to a continued decline in real estate sales activity.
Sales and Use Tax, (includes the Triple Flip)	\$52,441,000	\$52,792,453	100.7%	The Sales and Use Tax payments are reduced by 25 percent for the State Triple Flip and are offset by the bi-annual In-Lieu of Sales Tax payment from the State. Actual business sales activity declined over the previous year due to the economic slowdown. Despite this, year-end receipts came in over budget due to payment adjustments and corrections from prior period sales activity.
Uplands Oil Transfer	\$12,290,173	\$21,524,522	175.1%	Budgeted FY 08 revenue was based on an oil price of \$45.00/bbl. The price of Wilmington Crude oil averaged \$95.74/barrel during the fiscal year. The transfer to the General Fund reflected this increase in oil price.

Revenue Source	FY 08 Adjusted Budget	FY 08 Year-End Actuals	Revenue as % of Adjusted Budget	Notes
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$40,800,000	\$39,393,475	96.6%	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. Monthly VLF payments trended lower than budget due to a decline in auto sales. In-Lieu VLF payments reached budgeted expectations.
Utility Users Tax	\$43,140,000	\$41,123,403	95.3%	Electric UUT collections trended below budget despite Southern California Edison increased rates for some customer classes in the second quarter of this fiscal year, which were offset by decreases in other customer groups for a neutral fiscal impact. Natural gas UUT collections were above budget due to higher gas costs, although lower volumes of gas were consumed than in the prior year. Telephone UUT collections came in below budget due to a continuing trend of price competition in the industry and a reduction in landlines. Water UUT collections trended below budget due to the success of water conservation efforts.
Parking Citations	\$16,350,250	\$14,086,162	86.2%	Police Department parking citation activity trended below budget due to a delay in the placement of additional citation officers.
Business License Tax	\$11,272,752	\$11,300,453	100.2%	Business recovery efforts and the annual CPI adjustment maintained collections at budget.

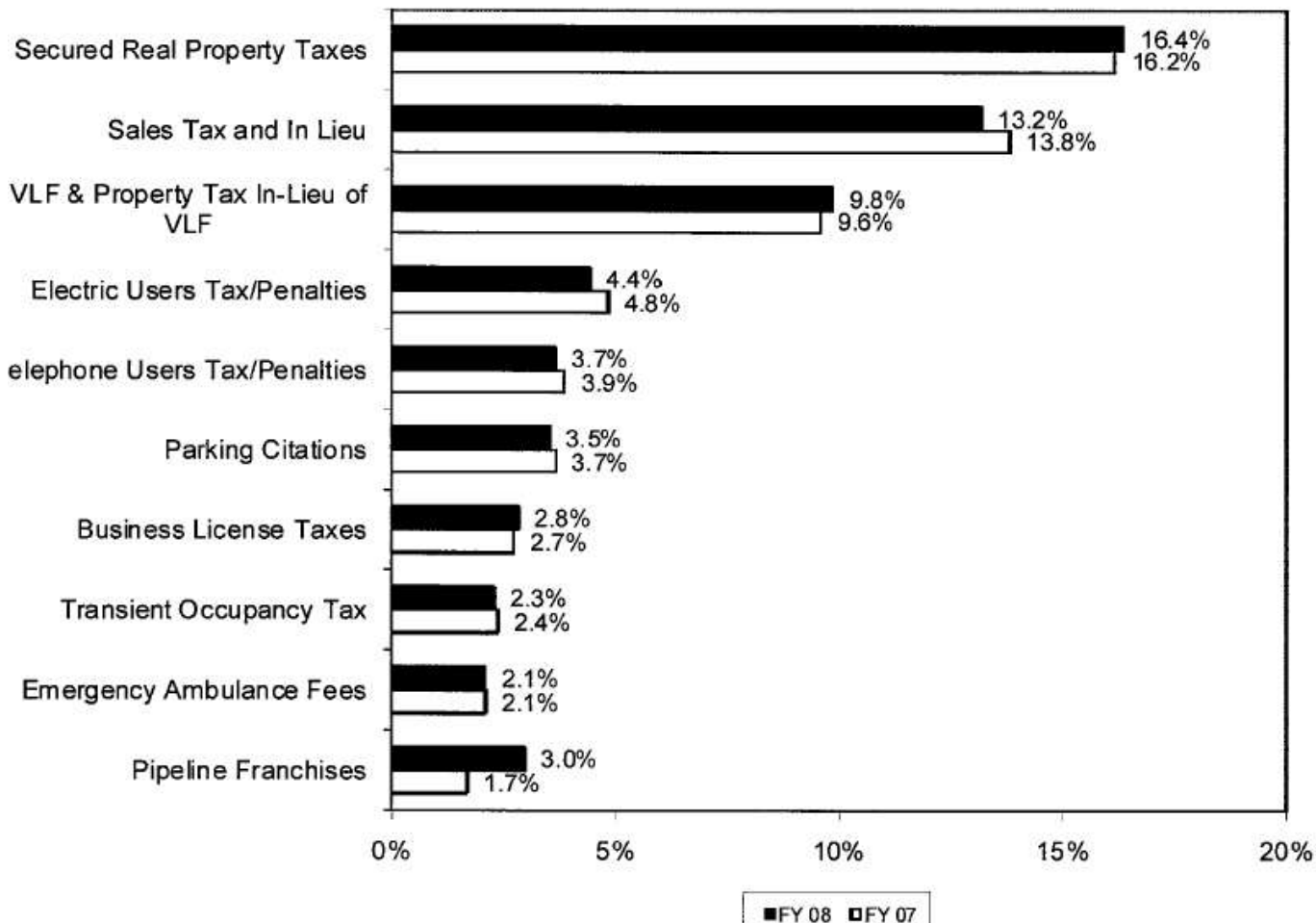
Emergency Ambulance Fees	\$8,944,000	\$8,348,777	93.3%	Factors such as reductions in Medicare/MediCal payments and the changing payer mix negatively impacted collections beyond initial budgeted expectations. However, ambulance fee collections performed 4.3 percent better than its estimate-to-close.
Transient Occupancy Tax	\$9,500,000	\$9,108,780	95.9%	The slowing economy has had a negative impact on Long Beach tourism, which has led to declines in hotel room occupancy rates in Long Beach hotels. Additional TOT to transfer to the Housing Trust Fund is not available.
Pipeline Franchises	\$7,000,000	\$11,901,157	170.0%	Southern California Gas Pipeline Franchise fee revenue far exceeded budget. The quarterly payments demonstrated an increase in the volume and cost of gas transferred to electric plants over the previous year.

It is important to note that Transient Occupancy Tax (TOT) revenue ended the year at \$9,108,780, reflecting a \$391,220 shortfall from the budgeted amount of \$9,500,000. This is primarily due to a decrease in hotel occupancy rates resulting from the current economic crisis. As TOT revenue came in under budget, there is no additional TOT revenue available to deposit into the Housing Trust Fund.

A summary of the top 40 General Fund revenues with year-end actuals is included in Attachment B.

Exhibit 2 below shows the City's top 10 General Fund revenue sources in FY 08 as a percentage of total General Fund revenue; in aggregate, the Top 10 represents \$237.9 million, or 61.7 percent, of General Fund revenues. For reference, the General Fund commitment to Police and Fire Department expenditures in FY 08 was \$248.8 million, comprising 64.6 percent of General Fund revenues.

Exhibit 2 – Top 10 General Fund Revenue Sources as a Percentage of FY 08 (\$400.1 million) and FY 07 (\$385.7 million) Receipts.



FY 08 Revenue by Department

Attachment C provides a breakdown of General Fund revenue performance by department. Many of the departmental variances are captured in the footnotes to this attachment. The Police Department realized the highest level of General Fund revenue of all operating departments at \$22.4 million, followed by Public Works at \$18.6 million and Financial Management at \$18.5 million. Parks, Recreation & Marine and Public Works ended the year with higher than budgeted General Fund revenues. Overall, General Fund revenue citywide came in 2.5 percent higher than expected.

FY 08 Expenditures by Department

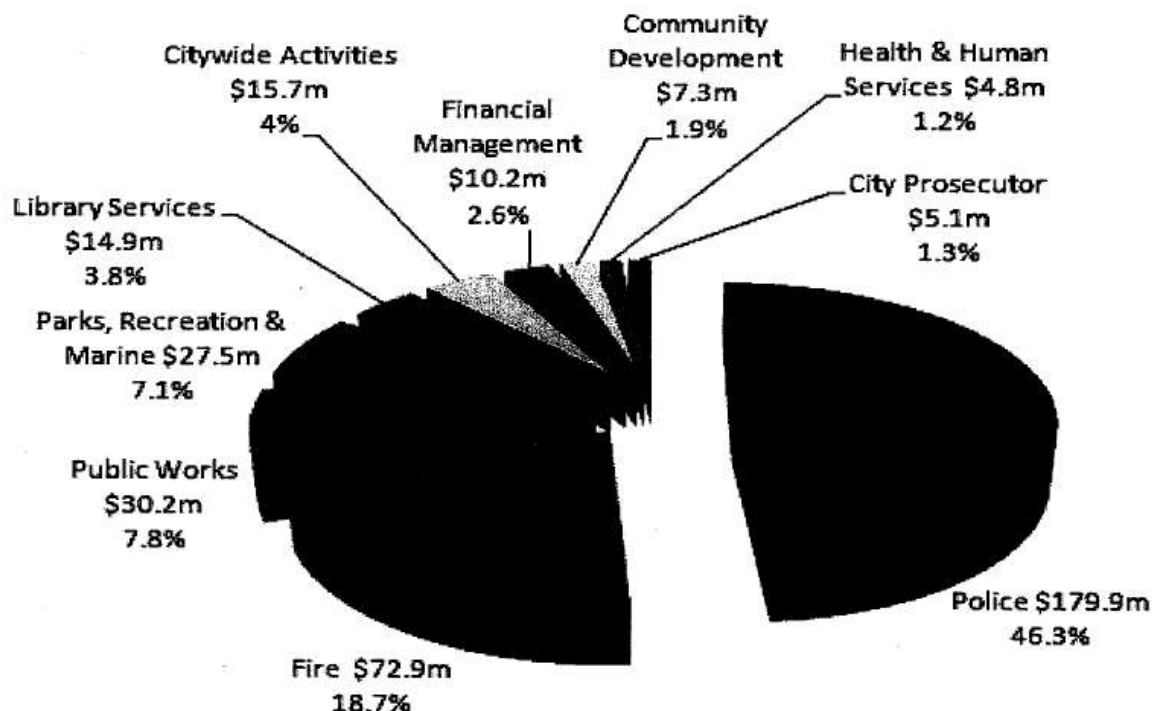
Actual General Fund spending for FY 08 at the department level came in at \$388.8 million, slightly under budget at 99.1 percent as shown in Attachment C, which provides General Fund spending by department. All departments ended the year with General Fund expenditures within adjusted budget limits with the exception of Citywide Activities. While within legal appropriation limits for all funds, the Citywide Activities Department exceeded General Fund appropriations due to a budgeted savings for employee vacancies, which actually accrued to operating department budgets during FY 08.

Of note, the Police Department ended FY 08 \$1.35 million under its General Fund appropriation. This significant fiscal turnaround reflects the efforts of the entire Police organization to control costs, especially in overtime, while maintaining services to the community.

Exhibit 3 below shows the City's top 10 General Fund expenditures by department in FY 08 as a percentage of total General Fund expenditures. In aggregate, the Top 10 represents \$363.7 million, or 93.5 percent, of General Fund expenditures. Together, Police and Fire account for 65 percent of General Fund expenditures. The Departments of Police, Fire, Public Works, Parks, Recreation and Marine, and Library Services account for 83.8 percent of General Fund expenditures.

Exhibit 3 – Largest FY 08 Year End General Fund Expenditures by Department, as a Percentage of the \$392.6 million Total Expenditures.

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



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

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Police & Fire Public Safety Oil Prod Act	\$903,760	\$0	\$3,677,450	\$3,401,137	\$1,180,074

On May 1, 2007, the voters approved a special tax of 25 cents on every barrel of oil produced to be used specifically for police officers and firefighters known as the Police and Fire Public Safety Oil Production Tax (Proposition H). The Police and Fire Safety Oil Production Act Fund began FY 08 with a fund balance of \$903,760. In the first full year of this Fund, the revenue received is divided evenly between the Police and Fire Departments. Prop H currently supports 12 new Firefighters and a new fire truck and 14 new Motor Officers. In FY 08, Firefighter recruits graduated from the academy and Police Motor Officers were being trained; both departments will have a full year's deployment in FY 09. The majority of the ending fund balance will be set-aside for a \$900,000 one-time cost for the payment of a new fire truck. This new truck will be received and paid for in FY 09.

Fleet Fund (Restricted)

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Fleet Services	\$10,677,114	(\$234,866)	\$29,854,318	\$34,019,458	\$6,277,108

The Fleet Fund supports the purchase and maintenance of the city's fleet, including fire engines, heavy-duty trucks, street sweepers, police cars and code enforcement sedans. The Fleet Fund began FY 08 with a fund balance of \$10.7 million, most of which is multi-year accumulated capital replacement funds. The Fleet Fund has had a persistent structural imbalance, exacerbated in FY 08. This can be seen clearly in the diminishing fund balance, which was \$10 million in FY 06, \$8.7 million in FY 07 and \$6.3 million in FY 08. Fleet operations are moving towards more preventive maintenance and a robust capital replacement program to bring costs down and to bring the Fund back into balance. The structural imbalance of the Fund is a concern for FY 09 as the Fund will continue to use one-time monies collected for vehicle replacements, though this should be mitigated by reduced fuel costs. In FY 10, increased charges to clients will be required, impacting other funds including the General Fund.

Towing Fund (Restricted)

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Towing	1,091,910	-	\$8,865,295	\$9,733,210	\$223,995

The Towing Fund supports towing responses to clear accidents, impounding vehicles and city fleet support. In addition, the Towing Fund supports the operations at the Towing Yard as well as the sale of unclaimed vehicles. The Towing Fund began FY 08 with a fund balance of \$ 1.1 million. Like the Fleet Fund, the Towing Fund's revenue is not supporting ongoing expenditures. The Towing Fund optimization study recommended bolstering the yard staff, putting more drivers in trucks and reducing the reliance on contractors for tows. Despite these investments, progress has been slow in hiring qualified employees. Therefore, the use of contract tows has not decreased putting strain on the Fund as contract costs escalate. The City is exploring the use of implementing a booting program in FY 09, which will decrease the reliance on contract tows and use City truck drivers more efficiently and, in turn, fulfilling the staffing model put forth in the optimization study.

Health Fund (Restricted)

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Health	\$119,213	-	\$41,734,894	\$41,520,302	\$333,805

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. The Health Fund began FY 08 with a slight fund balance of \$119,213. The Fund continues to directly feel the fiscal pressure from the State budget crisis. Faced with cash flow shortages due to State reimbursements being increasingly delayed, the Health Fund received a loan from the General Fund for \$677,486 in FY 08. The total amount to date loaned to the Health Fund is \$3,358,343, which will be reimbursed in full upon receipt of several large reimbursements for the State grantors. The Health Fund has been diligent in maintaining a structural balance over the last two fiscal years with additional reductions made in FY 09 to maintain balance. In FY 09, for the first time in several years, the Health Fund will not receive a direct operating subsidy from the General Fund, which is a testament to the Health Department's focus on reducing overhead costs while increasing recovery of selected costs through user fees.

Capital Projects Fund (Restricted)

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Capital Projects	\$49,502,655	\$34,726	\$18,067,768	\$26,520,150	\$41,084,999

The Capital Projects Fund began FY 08 with a fund balance of \$49.5 million. The City spent \$22.3 million on Capital Improvement Projects in FY 08. Some of these projects included sidewalk repair, bike path replacement, the Bixby Park and Band Shell rehabilitation, golf course projects, ADA facility upgrades and the MLK park pool enclosure. The City received Prop 1 B monies totaling \$7.8 million that was spent on residential street repair. Given the record increase in the price of oil, FY 08 saw significant Tidelands funded capital projects begin (see Tidelands discussion below) after many years of deferment.

Tidelands Fund (Restricted)

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Tidelands Operating	\$34,834,536	(\$6,548,440)	\$141,727,949	\$132,335,009	\$37,679,036

The Tidelands Fund supports the Convention Center operations, Parks and Recreation facilities and activities, water quality, beach maintenance, the marinas, and public safety services along the City's coastline and tidal region. The Tidelands Fund began FY 08 with a fund balance of \$34.8 million. The Fund increased primarily due to record oil prices. This funding allowed the City to initiate several capital projects in FY 08. Projects that were budgeted included storm drain system improvements, marine stadium area improvements and seawall maintenance and repair. Additional projects were added mid-year due to the influx of oil revenue including sewer upgrades at the former NAGA location, lighting upgrades along the Downtown Waterfront and the installation of security access gates at Junipero Beach parking lot. With the recent precipitous decline in oil prices combined with increased Harbor expenditures in environmental programs, the Tidelands Fund will once again face resource constraints in FY 09. In an effort to maintain the health and viability of the Tidelands Fund, a Tidelands Public Safety Committee has been created to consolidate and streamline public safety services to eliminate redundancy amongst agencies and to ensure cost efficiencies in the Fund.

Uplands Oil Fund

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Upland Oil	\$5,374,903	(\$217,107)	\$32,956,531	\$30,154,326	\$7,959,001

The Uplands Oil Fund supports oil operations outside of the Tidelands area. The Uplands Oil Fund began FY 08 with a fund balance of \$5 million. In FY 08, the budgeted price of oil was \$45/bbl; however, with the rise in the price of oil, the annual average oil price was \$89.45/bbl (as of 9/30/08), which generated \$21.5 million in total oil revenue. This revenue accrued to the General Fund, which for FY 09 was critical to stay fiscally balanced while facing declines in other revenue streams and the rising cost of fuel. Despite the price of oil reaching \$130/bbl during the summer months, the City budgeted \$85/bbl for FY 09; a prudent decision as oil prices have began to recede from their previous inflated levels. However, projected revenue based on oil at \$47.40/bbl (as of 11/11/08) would result in a \$6.5 million revenue shortfall in FY 09.

Insurance Fund (Restricted)

Fund Type	Beginning Fund Balance FY 08	Reserves/Adjustments to Fund Bal	FY 08 Actuals Revenue	FY 08 Actuals Expense	Ending Fund Balance FY 08
Insurance Fund	(\$2,070,171)	-	\$34,910,367	\$34,045,601	(\$1,205,405)

The Insurance Fund supports the City's Workers' Compensation, General Liability, and claims and litigation costs. The Fund's balance has been brought down to its lowest levels due primarily to the \$20 million payment related to the McClure case. The Insurance Fund began FY 08 with a fund balance of \$2,070,171. While continued savings were generated by Workers' Compensation reforms, General Liability payouts continue to strain resources. FY 08 payouts included the continued legal filing costs associated with the Craig Patterson, Warren Harris and David Gage case, two imprisonment cases as well as the settlement of the Poling Case. The Insurance Fund needs to be rebuilt so that it can pay for future liabilities as onetime transfers from the General Fund will not be sufficient to sustain the Fund in an ongoing basis. Given decreased reimbursement from the City's insurers for the McClure case and expected payouts for settlements in FY 09, departments may see increased charges in FY 09 and FY 10 to build a reasonable fund balance.

FY 09 General Fund Outlook

As we look to FY 09, significant fiscal challenges remain on the horizon. Long Beach's financial outlook is influenced by multiple factors, including national and local economic trends, the State of California's budget, current commitments for service delivery and negotiated commitments to the workforce. The national and local economic crises will continue to impact key revenue sources that are projected to come in under budget. The impact to the City, and specifically the General Fund, will be reflected in the primary revenue sources that support the Fund, most of which are susceptible to economic trends. In September 2009, a projected \$10 million structural increase from the Police Officers' Association negotiated agreements will take place impacting the budget for FY 10.

Although Long Beach's financial outlook is influenced by many factors, the City Manager and Department of Financial Management have implemented numerous strategies to proactively address this economic crisis and its impacts. With three months into the fiscal year, the City is projecting a \$15.7 million shortfall if current revenue trends continue, particularly the lower price of oil. Reducing expenditures in FY 09 has become a priority. All unbudgeted one-time revenue will be deposited into the Budget Stabilization Fund. Therefore, monies received from the Sempra settlement (\$6 million), the expected revenue from the General Petroleum location agreement (\$350,000) and any other unbudgeted one-time revenue will remain in the Budget Stabilization Fund. These one-time resources are currently estimated to total approximately \$6.35 million in FY 09. As mentioned earlier, the City is continuing to maintain cost savings measures such as a hiring freeze, a freeze on out-of-state travel, no purchase of tables at community events and reductions on all non-essential spending.

The FY 09 Adopted Budget also contains several organizational efficiency efforts that were to be undertaken to generate operational efficiencies or budgetary savings for FY 10. These efforts include but are not limited to: contracting-out trades; consolidating technology services, emergency communications, plan check functions and Police Department leases; neutralizing the \$3 million Museum of Art bond payment; and, eliminating non-Charter mandated commissions.

The Department of Financial Management will continue to monitor the fiscal situation to determine if

mid-year budget reductions are necessary. In compliance with the City Council's Financial Policy on achieving and maintaining a structurally balanced budget, the City must continue to take a fiscally prudent approach to the use of available General Fund resources, and begin to seriously consider additional revenue sources to support the levels of investment required to sustain the gains achieved over the past decade to redevelop and reinvigorate Long Beach as a progressive beach community.

FY 10 and Beyond

Looking to FY 10, it is important that the City continue to be proactive and remain fiscally responsible despite the current national economic financial crisis. At the time of FY 09 budget adoption, the projected structural out-year deficit was \$10 million for FY 10 and \$20 million for FY 11. With the updated revenue projections, as well as some additional cost assumptions including cost increases in the Fleet and Technology Services MOU, and other cost increases, these structural shortfalls are expected to increase. Given these fiscal pressures, continued downsizing of the organization may be necessary. During the budget development for FY 10, it is hoped that the efficiency efforts initiated with the FY 09 budget will lessen the need for reductions in workforce. As a City, given the need to address our infrastructure needs with limited resources, it is critical to think about which services are essential to provide to the community with our limited General Fund resources. The City must also maximize all revenue opportunities so that it can structurally support those services that are essential and significant to the community.

Conclusion

FY 08 posed yet another challenging year for the City to provide myriad services to the community under strained fiscal conditions. While the General Fund ended the fiscal year with a surplus, declines in major revenue sources (excluding oil) required departmental budget savings to ensure a balanced budget.

City Council action on this matter is requested on January 6, 2009, in order to increase the balance in the Budget Stabilization Fund as soon as possible.

Deposit \$3 million in General Fund ending fund balance into the Budget Stabilization Fund to help address a projected \$15.7 million revenue shortfall in the General Fund in FY 09.

Approve recommendation.

LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:

PATRICK H. WEST
CITY MANAGER