



Legislation Details (With Text)

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Title:	Recommendation to receive and file the Fiscal Year 2011 Year-End Budget Performance Report; and Increase appropriation in the Housing Authority Fund (SR 151) by \$1.2 million and increase/decrease appropriations in the General Fund in multiple departments for various purposes to reflect final expenditures. (Citywide)				
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Date	Ver.	Action By	Action	Result
1/24/2012	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2011 Year-End Budget Performance Report; and

Increase appropriation in the Housing Authority Fund (SR 151) by \$1.2 million and increase/decrease appropriations in the General Fund in multiple departments for various purposes to reflect final expenditures. (Citywide)

This report reflects the City's Fiscal Year 2011 (FY 11) budget performance. The information provided is preliminary. The books for FY 11 are not fully closed and the audit for FY 11 will not be completed until approximately the end of March 2012.

The report includes financial information for all funds and departments. While the financial report primarily discusses the General Fund, unusual results (both positive and negative) in other funds are highlighted where applicable.

Summary

The FY 11 Adopted Budget totaled \$3.0 billion for the City's 21 departments, and was later amended to \$3.8 billion during the fiscal year by the City Council. Of that amount, \$380.4 million comprised the General Fund budget, which was subsequently increased by the City Council to \$398.8 million during the fiscal year (appropriation of \$1.2 million is included in the proposed recommendation).

As of fiscal year-end, actual expenditures for all departments and all funds were \$2.9 billion. Revenues for all departments and all funds were \$2.8 billion. Unspent grant and capital project funds will be carried forward into subsequent fiscal years to support multi-year projects or grant-funded activities. All other unspent appropriation authorizations lapse (end), per City budgetary policy.

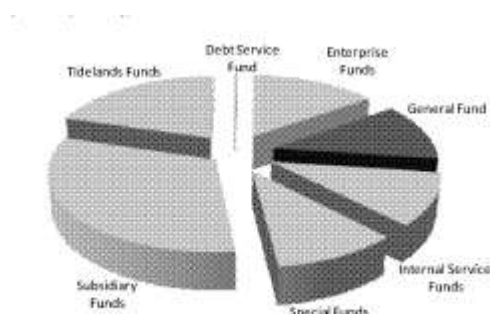
For the General Fund, actual expenditures for all departments were \$396.8 million, about \$2 million

under the Adjusted Budget of \$398.8 million. Actual General Fund revenues for all departments totaled \$387.3 million. In addition, supporting the expenditures was an \$11 million release of reserves approved by City Council for such things as police helicopters and ambulances. One-time revenue, included in the \$387.3 million totaling \$6.4 million was received in FY 11 and was comprised of: 1) \$1.8 million from additional Upland Oil transferred to the General Fund as one-time to adjust historic revenue shortfalls, 2) \$1.9 million in deferred revenue from FY 10; 3) \$1 million in motor-vehicle in Lieu Tax revenue from the State that had been erroneously withheld in a prior year, 4) \$1 million in accelerated loan repayment from the Redevelopment Agency; and 5) \$634,342 in Asset Forfeiture funds received by the Police Department for restricted public safety purposes only.

FY 11 Expenditure Performance - All Funds

The City's Adopted FY 11 Budget for all funds includes \$2.5 billion of annual funds, \$463.6 million of carryover (multi-year grants and capital project funds) and prior year encumbrances (goods and services ordered in FY 10 but received in FY 11), and \$806.3 million of City Council-approved budget amendments, bringing the total Adjusted City Budget to \$3.8 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 1 above, the City has seven fund types divided into 34 funds that comprise the \$3.8 billion adjusted budget. Most of these funds are restricted funds (gray color), such as the Harbor Fund, Gas Fund and Tideland 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 10.6 percent of the entire Adjusted City budget. For a discussion of notable fiscal performance in non-General Fund funds, please see the Other Funds section of this report.

General Fund

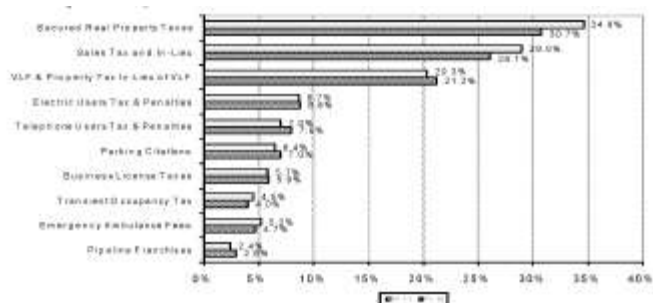
FY 11 Revenue

As of fiscal year-end, \$387.3 million of General Fund revenue was received, including one-time revenue. General Fund revenue net of one-times was \$380.9 million. A General Fund mid-year revenue shortfall was projected as a result of economically impacted revenue sources such as Parking Citations, American Golf revenue, Utility Users Tax, and Pipeline Franchise Fees, among others. Improving revenues in other areas and a structural change in the transfer from the Uplands Oil Fund were used to mitigate the under-performing revenues.

The four largest General Fund revenues ended FY 11 above projected levels. Secured Property Tax, Sales and Use Tax, Property Tax In-lieu of VLF and Motor Vehicle In-Lieu ended the fiscal year between 1.3 percent and 1.6 percent above projected levels. While the variance in Property Tax In-lieu of VLF and Motor Vehicle In-Lieu was the result of a prior-year correction on the part of the State, the other revenue increases were a result of moderate economic growth and conservative revenue projections. In addition to these revenues, Sales Tax has seen significant growth in FY 11, ending the year \$7.6 million above FY 10, driven in large part by Edison Material and Supply (EMS). This growth in EMS revenue was largely offset by the rebate agreement to EMS. For sales tax revenue received in FY 11, the City rebated over \$7 million to EMS. Another revenue source that saw significant growth in FY 11 was the Transient Occupancy Tax (TOT). TOT year-end actuals were \$546,638 over budget and \$1.2 million above FY 10 year-end actuals. An increase in lodging demand, coupled with increases in occupancy rates and decreases in average daily room rates, led to an overall increase in TOT revenue. Between January 2011 and September 2011, average revenue per available room in Long Beach increased by over 11 percent over the same period the previous year.

The culmination of the mid-year revenue adjustments, improving revenue performance in some areas and unanticipated one-time revenues allowed the General Fund to end FY 11 with higher than (the mid-year) projected revenue. To allow for greater flexibility in handling potential revenue shortfalls in the future, \$5 million in FY 11 fund balance has been reserved for future action as needed and as determined by City Council.

A summary of the top 40 General Fund revenues is included in Attachment B.



FY 11 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. Public Works realized the highest level of General Fund revenue of all operating departments at \$24.9 million, followed by Financial Management at \$20.2 million and the Police Department at \$19.2 million.

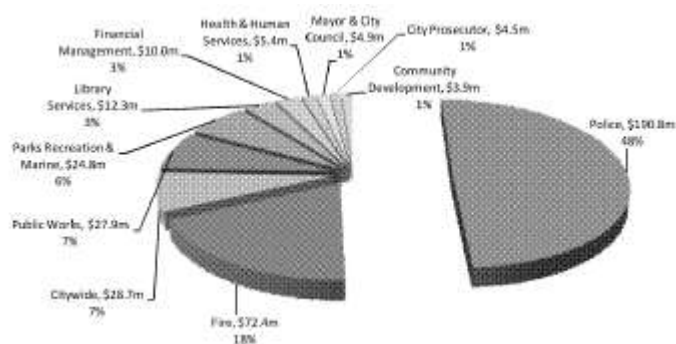
FY 11 Expenditures by Department

Actual General Fund spending for FY 11 at the department level came in at \$396.8 million, or at 99.5 percent of the adjusted budget, as shown in Attachment D. All departments ended the year with General Fund expenditures within adjusted budget limits, with the exception of Citywide Activities - XC, Civil Service, Health and Human Services, and Police. Citywide Activities exceeded the budget as a result of the added requirement to accrue the Edison Material Supply (EMS) rebate expense for revenues received in August and September of 2011, which are paid out in FY 12. An FY 10 payment for the Online Applicant Tracking System was charged to FY 11 for the Civil Service Department. An increase in the number of animal licenses and notifications of renewals,

delinquencies, and citations issued by Animal Care Services led to greater expenditures in reprographics and postage for the Health and Human Services Department. The Police Department surpassed its budget due to personnel costs and fleet charges.

Exhibit 3 below shows the City's top 10 General Fund expenditures by department in FY 11 as a percentage of total General Fund expenditures. In aggregate, the Top 10 represents \$381.8 million, or 96.2 percent, of General Fund expenditures. Together, Police and Fire account for 66.3 percent of General Fund expenditures. The Police, Fire, Public Works, Parks, Recreation and Marine, and Library Services departments account for 82.7 percent of General Fund expenditures.

Exhibit 3 - Largest FY 11 Year End General Fund Expenditures by Department, as a Percentage of the \$396.8 million Total Expenditures.



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

Other Funds

Airport

The Airport Fund is used to provide customer service, safety and security at the Long Beach Airport, as well as provide fair operating costs to the Airport's business partners. Its revenues generally consist of non-airline, indirect airline and airline revenue, and its expenditures are generally for managing airport operations and capital improvements. The Airport Fund began FY 11 with a fund balance of \$27.9 million.

In FY 11, the Airport opened its new 2,224 space parking structure providing close and convenient parking for airline passengers and guests. The construction of the new parking structure was financed through the issuance of the Senior Airport Revenue Bonds Series 2009 A, B, and C, authorized by City Council on November 3, 2009 and paid from Airport Operations. Also, in FY 11, the Airport broke ground on the first phase of its Terminal Area Improvements project that will include the construction of hold rooms, associated restrooms and circulation areas, post security concessions, and a consolidated passenger screening area. This first phase is anticipated to be completed in FY 13, and is being financed by the issuance of Airport Senior Revenue Bonds Series 2010 A and B authorized by the City Council on October 19, 2010 paid primarily from Passenger Facility Fee revenues. Debt service payments for both the 2009 and 2010 bonds are included in the Airport's budget and are projected to continue until 2039 and 2040, respectively.

Towing

The Towing Fund supports towing operations to clear vehicles involved in accidents, impound vehicles, and also supports the City's fleet. In addition, the Towing Fund supports the operations at

the Towing Yard, including the sale of unclaimed vehicles. The Towing Fund began FY 11 with a balance of \$612,471 after making a \$3.5 million transfer to the General Fund in FY 10.

In FY 11, the Towing Division continued to pursue greater efficiencies to lower operational costs. Over the past few years, the Division has worked to monitor staff schedules to keep the cost of contract tows down. This has resulted in a 51 percent cost reduction from approximately \$441,000 in FY 08 to \$215,000 in FY 11. Despite managing expenses, however, the Towing Operations have been significantly impacted by the sluggish economy and a steady decline in the number of tow requests over the past few years. In FY 11, there was a 14.2 percent decline in tow requests from 18,361 in FY 10 to 15,752 in FY 11. Revenues have declined by approximately the same percentage, with \$8.5 million collected in FY 10 compared to \$7.3 million in FY 11.

Fleet

The Fleet Fund supports the purchase and maintenance of the City's vehicle fleet, including fire engines, heavy-duty trucks, street sweepers, police cars and code enforcement sedans, among many others. The Fleet Fund began FY 11 with a balance of \$13.7 million, comprised of vehicle replacement funds accumulated from departments over several years. Up until FY 09, the Fleet Fund had struggled with a persistent structural imbalance. However, for the past several years, fleet management has been working with its client departments to revise the criteria for vehicle replacement based on age, mileage and condition, keeping the Fleet Fund in balance. In FY 11, the Fleet Fund again ended the year with a positive balance. Furthermore, in FY 12, a new methodology for developing the budget for fleet acquisitions was implemented, targeting only critical replacements to further economize the benefits of the extended vehicle life cycles.

Health Fund (Restricted)

The Health Fund supports disease prevention and treatment services, health education, and bio-terrorism response services for Long Beach. The Health Fund began FY 11 with a fund balance of \$373,882. The Health Department's proactive efforts to build a more structurally balanced budget has resulted in the Fund's ability to pay down its cash loan from the General Fund by \$300,000; thus, the new balance of the cash loan from the General Fund is \$2,808,343. It is anticipated that the Health Fund will continue to pay down this loan until paid off. The Department started FY 12 with \$7.9 million in accounts receivables from federal and State grants, and a starting Health Fund balance of \$669,753. In past fiscal years, the department experienced cash-flow problems due to persistent state budget delays, however, it has made great strides in FY 11 by maintaining a positive cash balance. The Department continues to develop new grant-funded programs to address local public health issues in Long Beach.

Redevelopment

During the preparation of the FY 12 budget, the Governor and Legislature sought to balance the State's budget by passing two companion bills: one that eliminates redevelopment agencies, and the other that allows redevelopment agencies to make a voluntary contribution to continue operations. The members of the California Redevelopment Association, including the Agency, filed a lawsuit in California Supreme Court challenging the constitutionality of the bills. At the end of the year, a key law, AB1x27, was invalidated and the issues arising from this decision are being evaluated and will be addressed in FY 12.

Capital Projects Fund (Restricted)

The Capital Projects Fund began FY 11 with a balance of \$21.8 million, consisting of General Fund support, various State and Federal grants, and revenue from special assessment districts, transportation improvement fees and park impact fees - most of which is for restricted purposes. During the fiscal year, \$16.5 million was spent on park facility upgrades including greenbelts, bike paths, game courts, significant entryways, a visitor center, arroyo and parking lot improvements at Rancho Los Cerritos, construction of the McBride Park (California Recreation) Teen Center, various facility energy efficiency enhancements, citywide street repairs, traffic management enhancements, citywide sidewalk replacements, and storm drain water quality improvements.

Technical Year-End Appropriation Adjustments

Housing Authority

The Housing Authority provides housing rental assistance to residents of Long Beach via contractual arrangements with local property owners and landlords. The Housing Authority received additional funds for housing assistance payments from the Housing and Urban Development (HUD) for the Veteran's Affairs Supportive Housing (VASH) Program. The Health Department (HE) Housing Authority Bureau requests an appropriation increase for FY11 in the amount of \$1.2 million to cover the costs for housing assistance payments incurred in the Housing Authority Fund (SR 151). The appropriation increase is fully offset by grant revenues.

IAM 1 Percent Retroactive Salary Adjustment

A component of the current Memorandum of Understanding between the City and the International Association of Machinists and Aerospace Workers (IAM) is a 2 percent general salary increase in FY 11 plus the value of 2 percent of salaries and skill pays for IAM bargaining unit members being set aside for classification and compensation study equity adjustments. The agreement articulates that, in the event that the equity 2 percent is not allocated by September 30, 2011, 1 percent will be carried forward to FY 12 classification and compensation study adjustments and a 1 percent general increase, retroactive to October 1, 2010 will be implemented.

The value of these contract provisions has been recorded in departments' FY 11 expenses. All General Fund departments will also be receiving an equivalent budget adjustment. The budget adjustment in each department will be transferred from the City-wide department where the original budget for this cost was held. There is no overall increase to the appropriation for the General Fund. Please see Attachment D for department detail.

Conclusion

In FY 11, the City continued to feel the impact of the aftermath of the worst recession since the Great Depression and the slow, uncertain recovery afterward. At the end of the fiscal year, unemployment within the City reached 13.4 percent, compared to the national average of 8.8 percent. Declines in core General Fund revenue (e.g. property tax, oil production tax, parking citation and UUT revenue, among others) in the first half of FY 11 led the City to hold department budgets at their mid-year

estimates-to-close (ETCs). In general, departments were able to manage their budgets within those guidelines and total revenue for FY 11 ended up exceeding expectations, allowing the FY 11 General Fund to be balanced.

The discipline shown by the City Council in adopting the budget, and a mid-year adjustment along with steps taken by Management, resulted in a good ending to the FY 11 year for the General Fund. This progress and discipline in recent years will serve as an excellent foundation for what may be even more difficult decisions needed for the future.

City Council action on this matter is required prior to the closing of the City's books for FY 11 at the end of January.

Increase FY 11 appropriation in the Housing Authority Fund (SR 151) by \$1.2 million to cover the costs for housing assistance payments incurred as a result of the Veteran's Affairs Supportive Housing (VASH) Grant Program and increase/decrease appropriations in the General Fund in multiple departments to reflect actual year-end performance for a net zero change in the General Fund.

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:

PATRICK H. WEST
CITY MANAGER