



Legislation Details (With Text)

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Title:	Recommendation to receive and file the Fiscal Year 2012 First Quarter Budget Performance Report, including a report on Redevelopment Agency (RDA) services proposed to be continued, and direct City Manager to provide those RDA services and related costs to help ensure City and community needs are met. (Citywide)				
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Date	Ver.	Action By	Action	Result
2/21/2012	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2012 First Quarter Budget Performance Report, including a report on Redevelopment Agency (RDA) services proposed to be continued, and direct City Manager to provide those RDA services and related costs to help ensure City and community needs are met. (Citywide)

This report includes information on the City's Fiscal Year 2012 (FY 12) budget performance through December 31, 2011 for all funds, with particular emphasis on the General Fund and the Redevelopment Fund. In addition, the report describes actions that the City Manager will take now to help ensure a balanced budget at year-end, as well as authority requested of City Council to continue to provide certain RDA services and related costs.

Summary

As of the end of the first quarter, expenditures in all City funds are expected to end the year within budget. General Fund revenue, however, is currently projected to end the year at about \$392.6 million or 2.7 percent under budget, creating a potential budget deficit of \$11 million.

To address this problem early, all departments (City Manager and non-City Manager) will be asked to come in under budget and the FY11 \$5 million in savings will be reserved to offset the potential shortfall. This report outlines the steps to be taken immediately, and if further action is necessary, staff will make additional recommendations at mid-year.

FY 12 Expenditures - All Funds

There are no significant spending concerns to report at this time. Please see Attachment A for a complete summary of expenditures by fund. Staff will update the City Council in the 2nd Quarter Budget Performance Report if any new problems arise. All discussion of General Fund and Redevelopment Fund changes are included in separate sections below.

FY 12 General Fund Expenditures

As of December 31, 2011, all departments have estimated to end the year within their appropriations. See Attachment D for a summary of expenditures by department and Attachment footnotes for an explanation of any relevant changes.

FY 12 General Fund Revenue

General Fund revenues in the first quarter of FY 12 are declining or growing slower than expected since the budget was adopted. While revenues from property and sales tax are experiencing some rebound, other City operations, including some that generate revenue to the General Fund through inter-fund transfers, are not coming in as expected. First Quarter estimates are projecting an \$11 million shortfall in the General Fund. Citywide revenues represent \$7.8 million of that shortfall. Inter-fund transfers from SERRF, and Towing Fund account for \$2.1 million and \$1 million, respectively. Additional citywide revenue declines include \$1.6 million in the gas pipeline franchise and \$2.4 million in Utility Users Tax.

Departmental revenues, such as those in Financial Management, Police and Public Works, are also experiencing combined declines of \$2.5 million.

A summary of the top 40 General Fund revenues is included in Attachment B. Attachment C provides a more detailed breakdown of General Fund revenue performance and variances by department. Many of the departmental variances are captured in the footnotes to this attachment.

Closing FY 12 General Fund Budget Gap

The current estimates based on three months of data show General Fund expenses coming in slightly under budget. Financial Management does not anticipate any issues with ending the year within budgeted appropriation. As previously mentioned, however, the General Fund revenue and fund transfers are currently estimated to come in \$11 million under budget. In order to end the fiscal year in balance, a 1 % savings target will be initiated citywide immediately for all General Fund Departments to generate savings of approximately \$3.7 million by year-end. No reductions will occur to sworn personnel in Police and Fire. It is anticipated that both Police and Fire can accommodate the 1 % adjustment without impacting services. In addition, the FY 11 revenue surplus of \$5 million will be applied as needed to further offset the FY 12 shortfall. If both the 1% savings target and \$5 million revenue surplus are utilized, the shortfall is reduced to \$2.3 million (or 0.6% of the Adjusted Budget).

These steps to reduce the projected deficit to \$2.3 million make the situation more manageable without adversely impacting City services and operations. Past history indicates it is very possible that unexpected revenues or additional department savings may cover the remaining shortfall. In the unlikely case that revenues drop even further than estimated, additional actions may be recommended. In the event that revenues and/or expenses end the year better than anticipated, the \$5 million FY 11 surplus can be held in reserve for potential RDA costs. In addition, the City Manager is tightening his hiring freeze and further restricting discretionary spending.

Other Fund Highlights

In addition to the Redevelopment Fund, which is discussed below, the Towing and SERRF Funds are

not expected to meet their budgeted transfers. SERRF will not be able to make a FY 12 net facility transfer to the General Fund as a result of ending FY 11 with insufficient fund balance to exceed the minimum amount required by the JPA agreement. While Towing and Lien Sales has reduced expenditures in FY 12, its budgeted transfer to the General Fund does not reflect the continued declines in towing volume and associated revenues. In addition, a single audit finding related to Technology Services' grant charges could increase costs for General Fund departments, if not in FY 12, then likely in FY 13.

Redevelopment Fund

The Redevelopment Agency of the City of Long Beach (RDA) dissolved on February 1, 2012 as a result of a Supreme Court decision that invalidated AB1X 27 and confirmed AB1X 26. Many of the RDA programmatic costs were discontinued and layoff actions taken. On February 14, 2012, the City Council considered whether to continue certain RDA public services, debt service costs, and costs on the enforceable obligation list. In addition to these costs, there are also administrative costs associated with supporting the Successor Agency and protecting the City's interests, termination costs, and general overhead costs that continue even with the termination of the RDA. Most of these costs are independent of the decision to become the Successor Agency. It is recommended that Council also authorize these costs to be continued through FY 12. These costs may be offset by revenue authorized by ABX1 26. However, there is no assurance of revenue offset because of the uncertainties as to how the Oversight Board or the California Department of Finance will view these transactions. Therefore, there is uncertainty as to what will be the City's ultimate net costs for continuing expenses associated with the former RDA. Although it is hoped that there will be no or low net costs to the City, it is strongly recommended that the City not expend general-purpose reserves or one-time funds, including one-time oil revenue, until there is clearer resolution of potential liabilities of the City for these costs and as to how the City's projected difficult multi-year structural budget issue will be resolved.

A summary of estimated remaining FY 12 RDA related costs for successor agency, overhead and property management, excluding third party contracts, is shown below. Not listed below, and less predictable in their amount and timing are revenues that the City will receive as result of the abolishment of the RDA, including property tax revenues, Successor Agency administrative funding and payments for Enforceable Obligations.

Successor Agency and/or Protecting the City's interests

- | | |
|--|-------------|
| • Successor Agency/Housing Successor staff | \$1,100,000 |
| • City Attorney and Accounting support | \$ 490,000 |
| • Audit costs (paid in full) | \$ 85,000 |
| • RDA funded staff thru March 2 (payouts additional) | \$ 525,000 |

Continuing Overhead

- | | |
|--------------------------|------------|
| • Cost allocations | \$ 470,000 |
| • Civic Center rent | \$ 145,000 |
| • Other overhead charges | \$ 200,000 |

Property Management

- | | |
|-----------------------------------|------------|
| • Former RDA property maintenance | \$ 240,000 |
|-----------------------------------|------------|

- Property insurance \$ 50,000

Total \$3,305,000

City Council action on this matter is requested on February 21, 2012 in order to immediately take the necessary actions to address the projected FY12 budget shortfall to ensure a balanced budget at year-end.

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:

PATRICK H. WEST
CITY MANAGER