



Legislation Text

File #: 10-0320, **Version:** 1

Recommendation to receive and file the Fiscal Year 2010 First Quarter Budget Performance Report. (Citywide)

This report provides an update on the City's Fiscal Year 2010 (FY 10) budget and operational performance through December 31, 2009. 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, 2009 is \$2.9 billion. With 25 percent of the year complete, expenditure performance in all funds is at approximately 16.8 percent year-to-date. The total adjusted General Fund expenditure budget is \$384.6 million, with budgeted revenue of \$385.3 million. After the first three months of the fiscal year, based on current estimates, overall expenditures are on target but revenues are expected to fall short of budgeted expectations. With 25 percent of the fiscal year complete, approximately 22.3 percent of anticipated General Fund revenue has been collected.

FY 10 General Fund Revenue

While it appears that the economy bottomed out in 2009, the economy still remains weak and the much-awaited financial recovery will be slow and arduous. General Fund revenues are heavily dependent upon those parts of the economy hardest hit by the recession - the real estate market and consumer spending. With respect to Property Tax revenue alone, a three to four percent reduction in receipts is anticipated from FY 09 levels. This is largely attributable to the most recent data issued by the Los Angeles County Assessor's Office indicating that the Assessed Valuations for the City of Long Beach have declined by 2.9 percent. In addition, \$10.8 million of the City's property tax revenue is being "borrowed" by the state to address their budget deficit. The first property tax take-away in the amount of \$5.4 million occurred on December 18, 2009. Fortunately, the City was able to negotiate a solution to negate the impacts of this raid that will allow us to borrow up to three years of Subsidence Fund interest from the State to make the City whole. The first transfer from the Subsidence Fund, in the amount of \$5.4 million has been made to the General Fund. Similarly, based on recent performance, Sales and Use Tax is projected to end 5.7 percent below FY 10 adopted revenues. The hotel industry continues to be impacted by the economic downturn with lower occupancy rates than last year, as well as reduced hotel room rates. In addition, the State has informed us that they will be withholding \$1.8 million of anticipated In-Lieu Sales Tax (i.e. Triple Flip) in FY 10 to recoup an overpayment of In-Lieu Sales tax to the City in FY 09.

Based on these trends, General Fund revenue is currently projected to come in approximately \$6 million under budget. An adjustment to the FY 10 General Fund Revenue Budget has been conducted to more accurately reflect recent revenue performance. On a positive note, however, the current price of oil per barrel is \$74/bbl. The budgeted price per barrel of oil is \$40/bbl. An increase to the Uplands Oil Transfer of an equal amount can provide much needed revenue to balance the General Fund budget without the need for mid-year reductions in programs and services to the public or the eliminating positions. However, if oil prices decline, mid-year reductions in spending will likely become necessary.

The Department of Financial Management is vigilantly monitoring revenue performance on a weekly basis and modifying forecasts based on evolving economic performance data. Current and projected revenue performance is based upon a variety of factors, and includes both structural and one-time revenues. It is important to note the risks inherent in projecting revenue, as the City has limited, if any, authority to affect certain revenue streams. The table below highlights performance through December 31, 2009 for selected General Fund revenues.

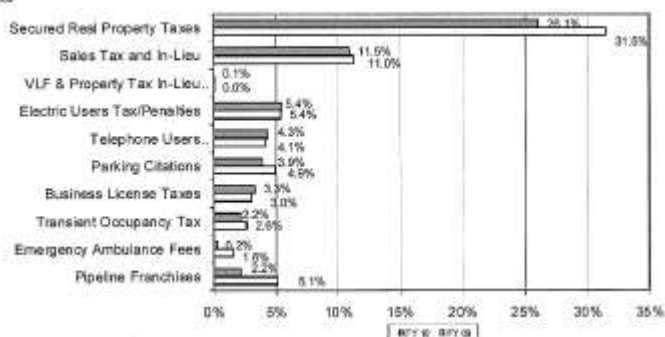
Revenue Source	FY 10 Adopted Budget	FY 10 YTD Revenue	YTD Rev as % of Adopted Budget	Notes
Secured Property Tax	\$98,100,000	\$22,406,212	35.9 %	The first of seven secured property tax payments from the County was received in December 2009. The payment comprised 40 percent of the County's estimate of the City's annual payment, net of administrative costs totaling \$1,744,700 charged to the City. The property tax payment demonstrates a significant decrease from the previous year at this time, which is a result of foreclosure activities, delinquent payments, reassessment appeals and the \$5.4 million take-away by the State.
Real Property Transfer Tax	\$900,000	\$180,372	20.0%	Real Property Transfer Tax collections will come in less than in FY 09 and below budget projections due to a sharp reduction in home values. Actual sales activity increased over the same period last year as buyers are taking advantage of lower prices.

Revenue Source	FY 10 Adopted Budget	FY 10 YTD Revenue	YTD Rev as % of Adopted Budget	Notes
Sales and Use Tax	\$39,160,000	\$9,373,703	18.3%	The Sales and Use Tax payments were reduced by 25 percent for the State Triple Flip and are offset by the bi-annual Property Tax In-Lieu of Sales Tax payment from the State. First quarter sales tax receipts, representing summer sales activity, demonstrated a 7 percent decline over the previous year due to declines in the business-to-business, construction, and service stations categories. It is anticipated that sales tax revenue will come in under budget due to the continuing impact of the recession.
In Lieu Sales Tax, (Triple Flip)	\$12,100,000	-	-	In Lieu Sales Tax (Triple Flip) is the repayment of the 1/4 cent of the previous year 1-cent sales tax collections. The State has advised the City that \$1.8 million of In-Lieu Sales Tax Will be withheld to recoup an overpayment in FY 09.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax In Lieu of VLF	\$40,300,000	\$50,380	.13%	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. Monthly VLF payments and In-Lieu VLF payments are expected to come in at or slightly above budget.

Utility Users Tax	\$41,890,000	\$10,205,326	24.4%	Electric UUT collections are trending below budget. Telephone UUT collections are expected to come in at or slightly above budget. Natural gas UUT collections are anticipated to come in less than budget due to a decrease in overall consumption and gas commodity prices. Water UUT collections are trending above budget due to the recent rate increases.
Parking Citations	\$15,588,826	\$3,312,500	21.2%	Parking citation revenue is not expected to meet budgeted levels due to residential parking improvement efforts, reduced street sweeping during the recent storms and the public's unwillingness to incur citations in a down economy.
Business License Tax	\$11,550,000	\$2,817,417	24.4%	Business Licenses collections are trending close to budget.
Emergency Ambulance Fees	\$9,114,000	\$204,100	2.2%	Emergency Ambulance Fee collections are expected to end the year under budget by about \$500,000.
Transient Occupancy Tax	\$11,720,000	\$1,878,896	16%	The recession has led to declines in room prices and occupancy rates in Long Beach hotels.
Pipeline Franchises	\$8,270,955	\$1,870,975	22.6%	The first quarter franchise payment reflected a significant decrease in the cost of natural gas, and the volume of gas transported. Pipeline Franchises are expected to perform at or slightly below budget depending on fluctuations in gas costs and the volume of the demand from Long Beach electric generation plants.

A summary of the top 40 General Fund revenues is included in Attachment A. Exhibit 1 below shows the City's top 10 General Fund revenue sources in FY 10 as a percentage of total year-to-date General Fund revenue.

Exhibit 1 – Top 10 FY 09 General Fund Revenue Sources as a Percentage of the \$86 million Total Year-to-Date



FY 10 Revenue by Department

Attachment B provides a breakdown of General Fund revenue performance by department. Many of the departmental variances are captured in the footnotes to this attachment. The Financial Management Department realized the highest level of General Fund revenue to date of all operating departments at \$5.8 million, followed by the Public Works Department at \$3.0 million and the Department of Parks, Recreation and Marine at \$2.2 million. As noted earlier, with 25 percent of the year complete and 22.3 percent of revenue collected, actual revenues are trailing below budget.

FY 10 General Fund Expenditures

The Adopted General Fund budget for FY 10 was \$384.3 million. As of December 31, 2009, the total adjusted General Fund budget was \$384.6 million, due to carry-over for prior year encumbrances. The overall year-to-date General Fund spending is \$87.0 million, or 22.6 percent of budget, with 25 percent of the Fiscal Year complete.

FY 10 General Fund Expenditures by Department

Though there were few expenditure performance exceptions at the department level, worth noting was the Police Department at 23.7 percent of budget. The Department has made a concerted effort to limit overtime expenses and has currently spent 26.8 percent or \$2.4 million of its overtime budget, primarily due to higher salaries. The Department is currently estimating to end the year with \$9.8 million in actual overtime spending, which reflects only a 1 percent growth over last year. The Department of Financial Management is working closely with the Police Department to ensure the Department ends the year in balance.

FY 10 Expenditure Performance - All Funds

The City's Adopted FY 10 Budget for all funds includes \$2.5 billion of annual funds, carryover (multi-year grants and capital projects funds) of \$349.7 million, prior year encumbrances (goods and services ordered in FY 09 but received in FY 10), and City Council approved budget amendments. Combined, the total Adjusted City Budget as of December 31, 2009 was \$2.9 billion. Please see Attachment D for a breakdown of Citywide expenditures by fund.

While it is not expected that department or fund expenditures will occur equally throughout the fiscal year, or be fully expended in the current fiscal year due to the inclusion of multiyear 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 16.8 percent year-to-date. This includes the Harbor and Redevelopment Funds currently performing at 11.5 percent and 13.6 percent, respectively.

Other Fund Highlights

Proposition H Funding

On May 1, 2007, the voters approved the Police and Fire Public Safety Oil Production Tax (Prop H), a special tax of 25 cents (with an annual CPI, currently yielding 27 cents per barrel) on every barrel of oil produced, to be used specifically for police officers, firefighters and related costs including, but not limited to, equipment, facilities and training. In FY 10, Prop H started the fiscal year with a slight fund balance of \$121,511 and by the end of December the estimate to close (ETC) indicates a revenue projection of \$3.4 million. The revenue of \$3.4 million will not fully support the projected expenses of \$3.95 million. If revenue trends do not improve, the fund will likely experience a negative year-end fund balance or deficit of almost \$400,000. Since the first quarter production of 3,258,260 barrels in FY 10 was at its lowest in five years, it is unlikely that budgeted revenue projections will be met in FY 10. Therefore, the City Manager is working with the Police and Fire Departments to assess the operational impacts of this revenue decline and develop options to keep the fund in balance.

Special Advertising and Promotions Fund

As of FY 09, the Special Advertising and Promotions (SAP) Fund had \$420,812 in fund balance at year-end.

While TOT revenue is budgeted at \$4.86 million in FY 10, given actual occupancy rates and average room rates through the first quarter of the fiscal year, it is likely that TOT revenue will fall short of budgeted levels due to a slow economic recovery.

With a beginning fund balance of only \$420,812, the continued poor performance of TOT revenue and the dependence on fund balance to support FY 10 budgeted expense, it is likely that mid-year budget reductions and/or revenue enhancements will be necessary for the SAP Fund to end the year with a positive fund balance.

Development Services Fund

The Development Services Fund was established in FY 07 to segregate development fees paid for permits, plan checks and other regulatory services required by the development community. Since its establishment, the Fund has been challenged by the gradual, but eventually significant decline in development activities due to the real estate crisis.

As a result, revenues have consistently fallen short of budgeted expectations, with FY 09 year-end actual revenue of \$12.4 million compared to \$15.2 million in the adopted budget.

The Department has taken gradual steps to bring its expenditures in line with its revenues; however, due to the FY 09 shortfall, a General Fund budgeted operating transfer of \$500,000 and a loan of \$250,000 was required to ensure the Fund ended the year in balance.

There is no General Fund financial support budgeted for the Development Services Fund in FY 10; hence, additional steps will be taken in FY 1 ° to bring expenses in line with revenue.

The Development Services Department, along with the Department of Financial Management, is reviewing options to ensure that expenses do not exceed revenue in FY 10.

Health Fund

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. Since the Health Fund relies primarily on revenues from State sources, the fund has experienced significant revenue declines in recent years.

Since 2008, the Health Department has been making significant cost-saving reductions to offset these revenue declines. The Department made \$4.1 million in mid-year expenditure reductions to programs and staffing in FY 09 and an additional \$3.9 million for the FY 1 ° Adopted Budget.

In January 2010, the Health Department initiated additional annualized cost saving reductions of \$2.5 million, including 30 FTE shifts and deletion of 14 FTEs (5 filled). With the cumulative effect of these reductions, the Health Fund has improved its status significantly and current ETCs project the fund to end FY 10 in balance. Cash flow challenges from the State continue, although they have improved in recent months. Concerns of State cash flow problems will persist until the State resolves its budget deficit.

Towing Fund

The Towing Fund supports towing responses to clear vehicle accidents, impound vehicles and support the City's fleet. 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 10 with a fund balance of \$1.0 million. This positive beginning fund balance was due in part to a lower General Fund transfer of \$1.4 million in FY 09, as the Towing Fund's revenue was not sufficient to support the budgeted \$3 million

transfer.

The FY 10 Adopted Budget reflects a slightly higher \$3.4 million transfer to the General Fund. Currently, revenue is trending lower as towing activity has been down approximately 8 percent for FY 10. Towing Fund costs are also expected to be lower than budgeted by approximately \$619,542 due to estimated reductions in overtime and reductions in the use of contract tows. The Department of Financial Management will continue working closely with the Towing Operations Division to monitor revenues to ensure the Towing Fund's ability to meet its budgeted transfer in FY 10.

Conclusion

Numerous financial constraints continue to challenge the City's ability to end the fiscal year in balance in the General Fund, Proposition H, Special Advertising and Promotions, Towing, and Development Services funds. These include revenues impacted by the stagnant national and regional economies, forthcoming solutions to the State's budget deficits, and departmental revenues that will be lower than 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 and critical infrastructure needs. The Department of Financial Management will continue working closely with departments to implement viable solutions to address these anticipated revenue shortfalls.

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