



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6th Floor • Long Beach, CA 90802

February 21, 2006

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

RECOMMENDATION:

Refer the Fiscal Year 2006 First Quarter Budget and Operational Performance Report to the Budget Oversight Committee (Citywide)

DISCUSSION

This report provides an update on the City's Fiscal Year 2006 (FY 06) budget and operational performance through December 31, 2005. 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. This report also, for the first time, provides an update on the City's operational performance by department, as developed through the Focus on Results (FOR) Long Beach program. Through the first quarter of FY 06, overall revenue and expenditures are on target.

Summary

FY 06 is the third year of the City's Financial Strategic Plan (Plan). As such, over \$92 million in structural budget solutions have been included in the General Fund and related funds budgets over the past three fiscal years. These solutions, which have included the reduction of programs, services and positions, as well as increased revenue and cost recovery, have placed a substantial strain on the organization as it downsizes and becomes more efficient. While resources required to provide public safety, infrastructure maintenance, library, recreation and other general government services have been reduced significantly, public demand for services continues to grow. As a result, departments' ability to remain within appropriation limits while providing high quality service will be a continued challenge as the City implements the Plan and restores equilibrium between the services it provides and the resources available to support them.

As of December 31, 2005, the total adjusted General Fund expenditure budget was \$363.8 million, with expected revenue of \$358.2 million. The difference between budgeted revenue and expense reflects the use of fund balance. Through the first quarter of the fiscal year, overall revenue and expenditures are on target. With 25 percent of the fiscal year complete, approximately 27.7 percent of anticipated General Fund revenue has been collected. During the same period, approximately 24.6 percent of the adjusted General Fund budget has been expended. The total Adjusted City Budget as of December 31, 2005 was \$2.326 billion. With 25 percent of the year

complete, expenditure performance in all funds is at approximately 20.3 percent year-to-date.

While performance to date is promising, it is critical to maintain the utmost fiscal restraint as several million dollars of expected, but still to be achieved cost savings (e.g., employee health care benefit) and unbudgeted expenses related to newly negotiated compensation increases put increased pressure on the budget.

Furthermore, current and projected revenue performance is based upon the City's various sources, both structural and one-time. We must recognize the risks inherent in projecting revenue, many of which the City has limited, if any; authority to affect. We must also consider that the FY 06 budget was balanced using some one-time revenues, including the sale of several properties (i.e., City Hall East, State Building parking lot and the Video Choice site), and reimbursements from the federal government.

FOR (Focus on Results) Long Beach is a commitment to performance management designed to help departments improve operational efficiency and effectiveness, a central goal of the Plan. By creating a direct link between program results and the budgets that support them, FOR Long Beach will give the City the tools to support decisions that allocate scarce resources to the highest priority issues. As this is the first year of FOR Long Beach implementation, data collection systems and analysis are developing and will be implemented over time. This quarterly report for the first time includes highlights of Departmental performance.

FY 06 General Fund Revenue

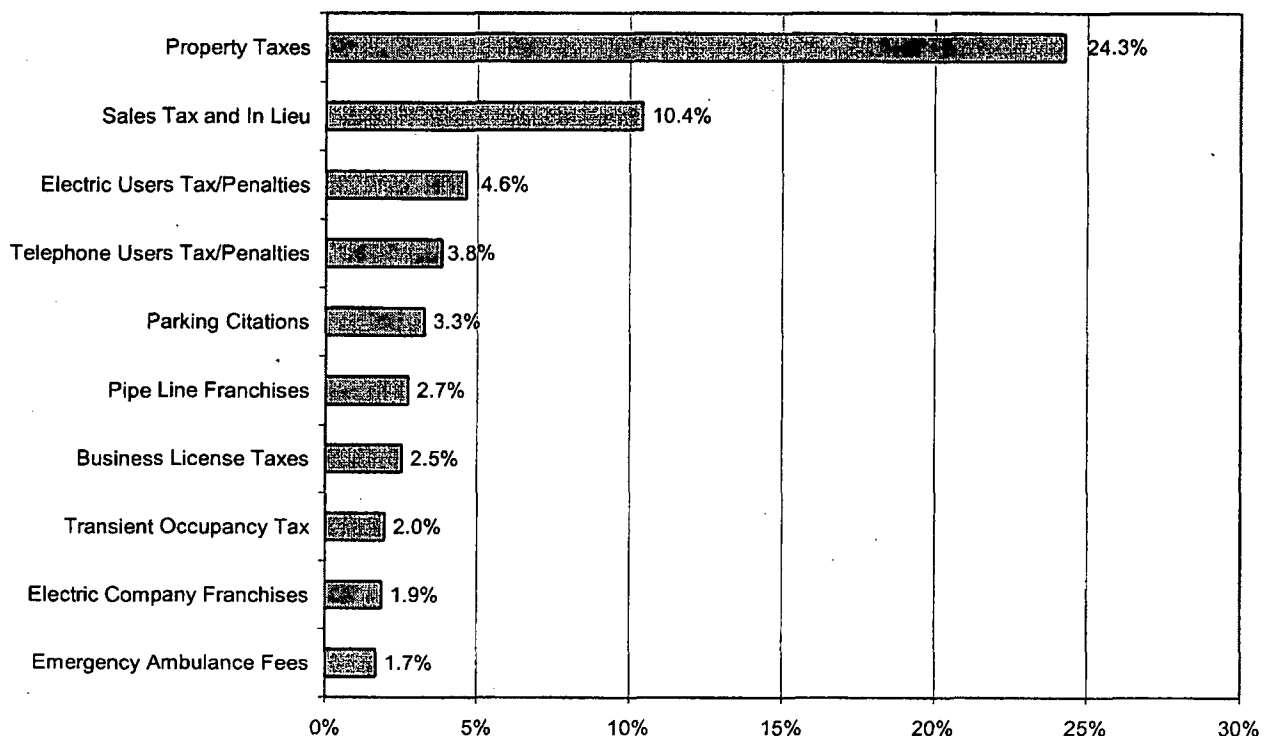
Overall, year-to-date revenue is \$99.0 million, or approximately 27.7 percent of total projected revenue, and is in line with the expected performance for the first quarter. The table below highlights year-to-date performance for selected General Fund revenues:

Revenue Source	FY 06 YTD Revenue	% of Adjusted Budget	Notes
Secured Property Tax	\$23,561,628	40.6%	The first of three secured property tax payments from the county have been received and reveal 9 percent growth, up from the 6.7 percent growth used in the budget.
Sales and Use Tax (net of sharing agreements and adjusted for the Triple Flip)	\$10,130,889	21.2%	The Sales and Use Tax payments were reduced by 25 percent for the State Triple Flip and is offset by the bi-annual Property Tax In-Lieu of Sales Tax. Base sales tax performance is slightly ahead of budget, but actual revenue for the year is expected at or near budget due to a \$1 million overpayment by the State for the FY 05 Triple Flip that will be taken out of the FY 06 receipts
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	(\$1,980,689)	(7.8%)	December YTD reflects half of the City's scheduled \$5 million contribution to the State's General Fund for the Governor's support of Prop 1A. The County reduced the City's December Property tax payment for the contribution and is the reason for the negative amount. The Property Tax In Lieu of VLF payment is first received in January.
Utility Users Tax	\$10,553,894	25.6%	Collections are trending at budgeted levels, with natural gas UUT higher than anticipated due to high gas prices, and telephone UUT lower likely due to increased cell phone industry price competition.

Revenue Source	FY 06 YTD Revenue	% of Adjusted Budget	Notes
Parking Citations	\$3,164,444	29.4%	Collections for Parking Citations are trending slightly above budget.
Business License Tax	\$2,452,250	24.7%	Collections are trending at budget and slightly above FY 05 levels due to a continued increase in the number of licenses issued.
Emergency Ambulance Fees	\$1,633,851	19.8%	Compared to FY 05, Emergency Ambulance fees are higher due to the implementation of the Basic Life Support (BLS) Pilot Program. YTD collections are low compared to budget due to a delay in collecting BLS billings. The Fire Department anticipates achieving its revenue projections for this new program by year end.
Transient Occupancy Tax	\$1,905,714	23.4%	Transient Occupancy Tax is trending near, but below budgeted levels.
Pipeline Franchise	\$2,651,449	32.6%	Southern California Gas Pipeline Franchise fee revenue is trending higher than budget due to higher natural gas prices.
Transfers From Other Funds	\$21,758,208	59.8%	Reflects budgeted transfers to the General Fund that were executed early to provide cash flow in lieu of executing Tax and Revenue Anticipation debt (TRAN). It is anticipated that transfers will finish the year on budget.

Overall, General Fund revenues are performing according to projections. A summary of the top 40 General Fund revenues is included in **Attachment A**, and a year-to-year (FY 06 to FY 05) comparison of the top 15 General Fund revenues is included in **Attachment B**. Exhibit 1 below shows the City's top 10 General Fund revenue sources in FY 06 as a percentage of total General Fund revenue.

Exhibit 1 – Top 10 FY 06 General Fund Revenue Sources as a Percentage of the \$97.0 million Total Year-to-Date General Fund Revenue



FY 06 General Fund Revenue by Department

Revenue performance exceptions are limited in number for the first quarter of the fiscal year, with some notable variances at the department level as follows:

- Community Development revenue is \$834,500 or 10.4 percent of budget for several reasons. The \$1 million in budgeted revenue for marketing and advertising will likely not be realized in FY 06 as the City just recently received proposals from marketing firms. Billings for services rendered to various City departments begin in the 2nd quarter, in addition to Code Enforcement revenue that will be reallocated from Planning and Building to Community Development.
- Library Services revenue is \$114,136 or 10.0 percent of budget as payments from the State of California Public Library Fund, along with donations from the Library Foundation and private organizations, typically being received later in the fiscal year.
- Planning and Building revenue is \$3,359,815 or 35.2 percent of budget with continued high demand for fee-based building, electrical, zoning, plumbing, and NPDES plan checks.
- Public Works revenue is \$3,215,529 or 21.5 percent of budget as the Department's anticipated revenue includes income that will be received later in the fiscal year.

Overall, revenue performance exceptions in the General Fund are not cause for concern as related to structural integrity, but the delay of marketing revenue and some land sale proceeds this fiscal year will have to be offset by some of the higher than anticipated tax revenues. Please see **Attachment C** for a breakdown of General Fund revenue by department.

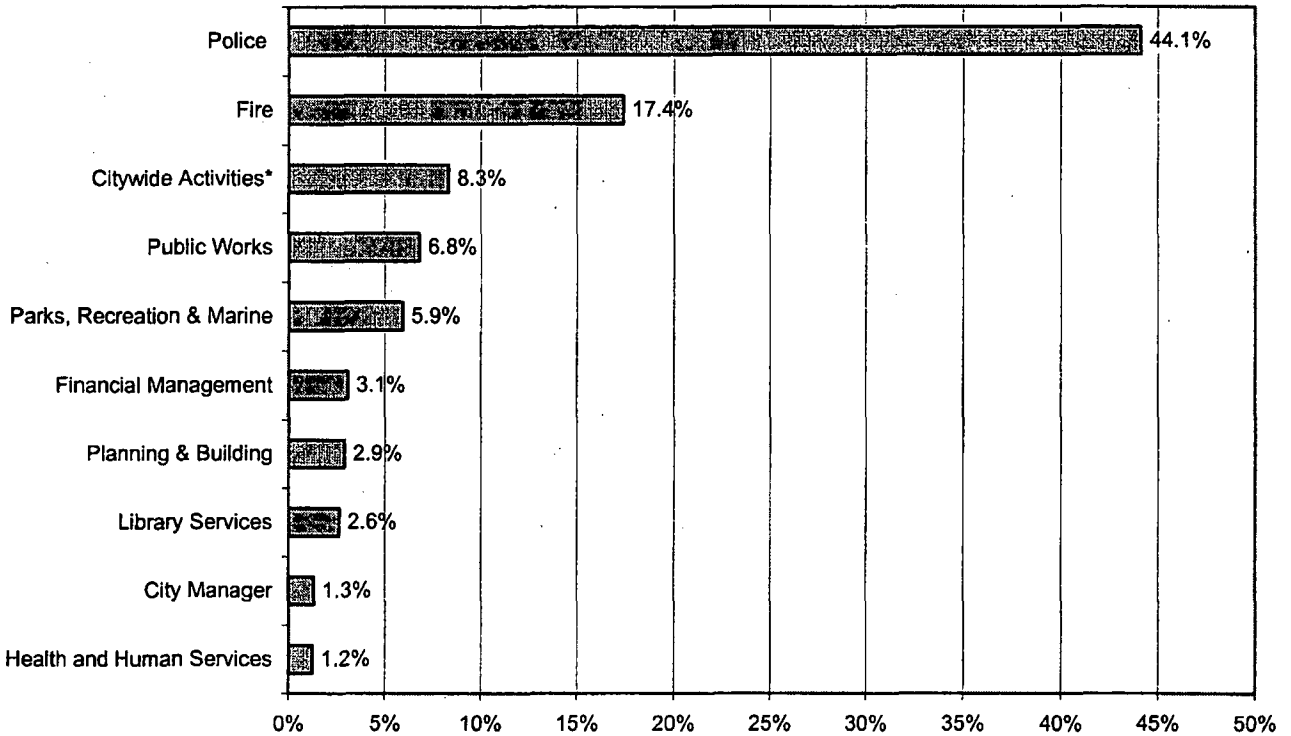
FY 06 General Fund Expenditures

The Adopted General Fund budget for FY 06 was \$362.1 million. Amendments totaling approximately \$1.7 million were added to cover prior year encumbrances (goods and services ordered in FY 05 but not yet received). As of December 31, 2005, the total adjusted General Fund budget was \$363.8 million. The overall year-to-date General Fund spending is 24.6 percent of budget. **Attachment D** provides a listing of all departments' year-to-date General Fund expenditure performance.

Variances at the department level include Citywide activities, which has spent 57.5 percent of budget year-to-date, primarily due to budgeted one-time transfers that occur in the beginning of the year, such as the transfer from the General Fund to the Capital Projects Fund for the sidewalk repair program and other projects.

The majority of General Fund expenditures have come from departments providing public safety services. Of the \$89.6 million expended to date, the Police Department (44.1 percent) and Fire Department (17.4 percent) comprised 61.5 percent of the total General Fund year-to-date expenditures. **Exhibit 2** shows the largest departments as a percentage of General Fund year-to-date expenditures.

Exhibit 2 – Largest FY 06 General Fund Expenditures Year-to-Date by Department, as a Percentage of the \$89.6 million Total Expenditures.



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

Attachment E displays General Fund spending at the department level as compared to the departments' adjusted budget, including an FY 06 to FY 05 comparison. FY 06 General Fund expenditures total 24.6 percent of the \$363.8 million budget compared to 24.8 percent of the \$378.0 million budget for the first quarter of FY 05; with cost increases incurred for police wages, health insurance and pension costs.

FY 06 Expenditure Performance – All Funds

The City's Adopted FY 06 Budget for all funds includes \$2.069 billion of annual funds, carryover (multi-year grants and capital projects funds) of \$245.4 million, and \$12.0 million from prior year encumbrances (goods and services ordered in FY 05 but not yet received). Combined, the total Adjusted City Budget as of December 31, 2005 was \$2.326 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, 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 20.3 percent year-to-date. However, it is important to recognize that only 23 percent of pay periods have been recorded, as pay periods do not usually coincide with the end of a month or quarter.

The funds listed below have exceeded the 25 percent expenditure rate due to a variety of circumstances:

- The SERRF Fund (33.0 percent) due to the annual prior year profit, which is transferred to the General Fund at the beginning of the fiscal year.
- Tideland Oil Revenue Fund (61.8 percent) due to a payment of \$64.3 million to the State as a result of higher-than-expected oil prices. A budget adjustment will be requested as the year progresses.
- The Special Advertising and Promotion Fund (40.1 percent) due to timing of payments to the Long Beach Area Convention and Visitors Bureau (CVB).
- Tidelands-Reserve for Subsidence Fund (100.0 percent) due to the second of two annual transfers of interest to the General Fund, allowed by State Legislation, to mitigate the impact of the loss of motor-vehicle-in-lieu tax revenue as the City's required contribution to the State General Fund as a condition of the Governor's support of Proposition 1A. Beginning in FY 07, the General Fund will be required to repay the Subsidence Fund for the approximately \$8 million borrowed, with \$405,000 annual payments for 20 years.

Other Significant Issues

Southern California Edison (SCE)

Southern California Edison (SCE) is proposing a series of rate increases that in aggregate may equate to 20 to 24 percent. The increases are pending approval from the California Public Utilities Commission (CPUC). The increase in rates will directly impact operating expenses, with both the General Fund and Tidelands Fund experiencing the greatest cost increases. However, higher rates would also translate into higher Utility Users Tax and Electric Franchise Fee revenue, which will offset the increase in energy costs for the General Fund. The Tidelands Fund will still be significantly impacted with no revenue offset, but the fund is being bolstered by oil profits as discussed later in this letter.

Hansen Land Management System Investment

On November 15, 2005, the City Council approved the request to move forward with the purchase and implementation of a code enforcement, permitting and land management computer system. An enterprise management system became a priority after the completion of the Information System Master Plan, which was completed in the fall of 2003, and the fact that client support for the existing Planning and Building system will no longer be available in 2007. The Hansen Software system was chosen by the City and will replace antiquated legacy systems and provide the City with an increased level of customer service, data analysis, coordination of interdepartmental operations, and productivity.

The Project team is conducting the Analysis and Design for Planning, Building, Code Enforcement and Public Works. Business Licenses, Fire, Health, Police and other miscellaneous permits will follow. The entire project is expected to be complete within approximately two years, with the first functions available as soon as spring 2007.

Downtown Dining and Entertainment District

On November 1, 2005, the City Council directed the City Attorney to draft an ordinance establishing a one-year pilot program standardizing entertainment hours and operating conditions in a new Downtown Dining and Entertainment District. To balance the needs of businesses, residents and visitors, the Police Department worked with various stakeholders including the Downtown Long Beach Associates (DLBA) and homeowner associations. To maintain a safe environment, a first quarter budget adjustment is being recommended to appropriate \$905,000 to support the deployment in the district, on an overtime basis, of six additional police officers and one police sergeant, seven days a week. [Note that the City Council adopted the ordinance in January 2006.] A repayment of Central Redevelopment Project Area loans, made possible due to the use of Port-related property tax accruing to the North Redevelopment Project Area, is funding the added cost. Additional sworn police positions as enumerated above will likely be proposed in the FY 07 budget.

Police Department MDT Mobil Systems

The Long Beach Police Department (LBPD) utilizes mobile computers in their field units to conduct suspect investigations and process dispatched calls. The current systems in place are antiquated and do not meet the Department of Justice (DOJ) encryption requirements. On August 2, 2005, the City Council authorized the City Manager to execute a contract with GTSI, Inc. for the upgrade of the department's mobile computer system. [Note, a first quarter budget adjustment was approved in January 2006 to cover the outlay of lease proceeds to the vendor and for lease payments.]

Queen Mary

The Queen Mary rent dispute continues to have a significant financial impact to the Tidelands Funds. As of December 2004, the receivable from the Queen Mary for rent owed to the City totaled about \$4.5 million. The revenue figures for 2005 have not yet been analyzed, but if the operation was similar to 2004, it is anticipated that approximately \$900,000 in additional rent revenue will accrue this fiscal year, which would further increase the Queen Mary rent receivable to approximately \$5.4 million as of December 2005.

The unpaid Queen Mary rent revenue is preventing the funding of some long-overdue capital projects in the Tidelands. The total amount of deferred Tidelands capital projects is approximately \$32 million, and includes the refurbishment of the Belmont Veteran's Memorial Pier, Bluff Park erosion repair, and various repair projects needed at the Convention Center.

Police Department Overtime

With 25 percent of the fiscal year complete, the Police Department has reported a little over \$3 million in overtime expenses, or 50.6 percent of their FY 06 Adjusted Budget. In addition to extending officers' shifts or calling officers in to cover sworn personnel shortages, overtime expenses are being used to support task force activities associated with Gang and Robbery suppression. Otherwise, year-to-date total personnel expenses,

net of overtime, were \$30.7 million, or 22.2 percent of the department's \$138.5 million General Fund net personnel budget. Also important to note, the rate of expenditures will increase this year in accordance with negotiated mid-year compensation increases.

Beach Berm Repair and Reinforcement

Ocean swells from Pacific storms accompanied with an unusually high tide resulted in the issuance of coastal flood warnings in December. The departments of Public Works and Parks, Recreation and Marine worked together to haul sand needed for berm repair and reinforcement with the most critical erosion occurring at the 72nd Place Lifeguard Station. Additional sand was used to reinforce the berms at the Dutch Miller Lifeguard Headquarters and at the narrower portion of the peninsula beach in the area of 64th Place. During the time period of December 29th to January 3rd, 320 loads of sand approximating 2,240 tons were trucked to the above locations with over 200 tons of debris removed from the waterline. This activity may result in a mid-year budget increase request in the Tidelands Fund.

Oil Revenue

Oil prices during the first quarter remain well above the budgeted price of \$35/bbl with Wilmington Crude currently at \$50.83/bbl for the first quarter of the fiscal year, resulting in both additional payments to the State as well as revenue for the Tidelands Fund and General Fund. The Department of Long Beach Gas and Oil estimates that the transfer to the Tidelands Fund will increase from \$7.6 million to \$11.3 million, while the transfer to the General Fund will increase from \$8.2 million to \$9.5 million. The department anticipates that these projected increases will be reflected in a second quarter budget adjustment.

Focus on Results – Operational Performance

Departments continue to engage in the strategic business planning process, in which they define the key issues they face with input from customers and residents, develop strategic objectives that will be used to address these issues and identify measures of performance by which progress will be measured toward achieving operational goals. Six City Manager-directed departments have completed drafts of their business plans, and the remaining seven departments will complete their drafts by early May 2006. The first six departments (Community Development; Financial Management; Fire; Gas and Oil; Parks, Recreation and Marine; and Planning and Building) have developed a full complement of performance measures that address not only the desired outcome, but output, demand, and efficiency of departmental programs and services. At this point in time, the remaining departments have developed output, or workload, measures for their activities and will be developing their strategic business plans and the balance of their measures during the coming months.

Since October 2005, all departments have been collecting data for their performance measures, which will provide valuable information about whether the City is achieving desired objectives and service results. Highlights of some of the preliminary performance information are provided in **Attachment G**. For the first time, the City is able to provide a direct link between performance results and budget allocations. As the

City moves forward with performance measure tracking, reporting and development of departments' business plans, we will gain a longer-term perspective on citywide performance trends, which will allow staff to assess the effectiveness and efficiency of services in the context of identified community and City Council priorities.

Conclusion

Despite the positive year-to-date performance, there is reason to maintain a firm position of fiscal restraint. We must be ever mindful of the tenuous nature of General Fund revenue sources, the current-year budgetary reliance upon one-time revenue from planned land sales and the probability that planned savings from employee health care benefits may not be realized in this fiscal year. Looking to the future, we must not lose sight of the fact that the new Police Officers Association labor agreement includes a wage adjustment to median of the ten comparable police agencies in September 2009; the actual amount of that wage increase will not be known until that time but is anticipated to be a substantial increase to General Fund costs that is anticipated to absorb most, if not all, of the projected net revenue growth. With current and future uncertainties, we must resist the mounting pressure to invest early positive revenue dividends to restore programs or expand the organization.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

SUGGESTED ACTION:

Approve Recommendation.

Respectfully submitted,



MICHAEL KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

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ATTACHMENTS

APPROVED:



GERALD R. MILLER
CITY MANAGER