



City of Long Beach
Working Together to Serve

Office of Gerrie Schipske, R.N.P., J.D.
Councilwoman, Fifth District
Memorandum

R-12

Date: May 1, 2012

To: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

From: Councilwoman Gerrie Schipske, Fifth District *GS*
Councilmember Steven Neal, Ninth District *SN*

Subject: **AGENDA ITEM:** Definition of "One Time Money" and Policy for
Appropriate Use of "Surplus Revenues"

BACKGROUND:

From time to time, the City of Long Beach has received "one time money" such as a \$9 million dollar settlement in the Sempra litigation. That money is truly "one time" as it was not budgeted as an on-going revenue source and the City will only receive that settlement "one time." Such "one time" revenues can be used appropriately for "one time expenditures" – for items or projects that require only "one time" revenues. Conversely, for several budget cycles, City Management has wisely projected oil revenues at conservative levels. However, this practice of under projecting revenues has resulted in several years of what has been also termed as "surplus revenue" and this revenue has been spent as "one time money" instead of being used to restore cuts in city services. A more accurate definition of these funds should be "under projected revenue" as these funds would not be "surplus" if they had been accurately projected in the current budget year. This designation of revenues realized in excess of projections has only been applied to oil revenues. Last year, the City experienced an 11% increase in sales tax revenue over projections, but that revenue was not treated as "surplus," nor spent as "one time money." In the same budget cycle, the City realized \$18 – 20 million dollars in oil revenues over what had been projected to be received. These funds were designated as "one time money" and spent on a variety of projects instead of being utilized to deal with the deficit of FY 2012 by restoring cuts to services or banked to deal with the recently announced \$26 million deficit over the next three budget years.

The City Council should decide if all revenues above projections are to be considered "one time money."

Recognizing that oil revenue from producers is volatile, the City should certainly continue to make conservative projections. However, utilization of surplus revenues should be consistent to reflect that the revenue is derived from an on-going, continued source of revenue but at levels above projections. (The City will always receive oil revenue. The amount varies from year to year as does property taxes. Amounts over projection are not necessarily "one time money.")

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The City Council should establish a policy in advance for the expenditure of “under projected revenue.”

By under projecting revenues against projected expenditures, a deficit will always be created. When revenue exceeds the “under projection” such revenues should be first utilized to restore service cuts because after all, the cuts were made as a result of the projected revenues. Any additional revenues above the restoration of cuts to services should be applied: first, a portion of the funds should be used to retire debt and then secondly, to repair and replace infrastructure. This is especially important when budget projections on oil revenues are based on \$55 or \$75 a barrel and oil actually sells at \$90 or \$103 a barrel. In this scenario, perhaps the council could determine that revenues from oil per barrel up to \$75 or \$85 a barrel would be used for the general fund services. Revenue realized from oil per barrel in excess of \$85 a barrel would be utilized for debt service and infrastructure repair and replacement.

Without a policy established in advance for the spending of “under projected” revenues, there is no predictability in how such revenues will be utilized, creating great uncertainty in the budgeting process. Alternatively, should the Council not wish to establish such a policy, it could perhaps seek an advisory vote of the taxpayers as to how these under projected funds should be utilized.

RECOMMENDATION:

By motion of the City Council, direct the City Manager to assist the City Council in developing a policy for dealing with revenues realized above projections from on-going revenue sources (i.e. property taxes, sales taxes, oil properties, etc.) so that general fund services are funded appropriately, debt is retired and infrastructure replaced and repaired.

FISCAL IMPACT: None