



City of Long Beach
Working Together to Serve

Memorandum

Date: March 16, 2010

To: Patrick H. West, City Manager

From: Lori Ann Farrell, Director of Financial Management/CFO

For: Members of the Budget Oversight Committee

Subject: Police & Fire Public Safety Oil Production Tax (Prop H) Fund Performance

On May 1, 2007, the voters approved a special tax of 25 cents, subject to an annual CPI adjustment, on every barrel of oil produced in Long Beach. The proceeds from the tax may only be used for police officers, firefighters, and related costs including, but not limited to, equipment, facilities, and training, in order to ensure timely responses to public safety needs.

On January 26, 2009, the Department of Gas and Oil submitted to the Budget Oversight Committee (BOC) a report indicating the current and projected decline in oil production and the potential impact on Prop H funds. In FY 10, Prop H revenue is budgeted at \$3.66 million based on a projection of 13,481,481 barrels, taxed at 0.27 cents per barrel. Revenues are allocated in the budget equally between the Police and Fire Departments. These funds support 14 Police Motor Officers and 12 Firefighters staffing a ladder company. The FY 10 expenditures are currently projected to be \$4.04 million (Table 1).

Table 1: Prop H Revenue and Expenditures

Prop H	FY 2009 Actuals	FY 2010 Budget	FY 2010 Projected Year End
Starting Fund Balance	\$1,180,074	\$121,511	\$121,511
Revenue	\$3,534,806	\$3,664,500	\$3,664,500
Expenditures	(\$4,593,368)	(\$3,886,970)	(\$4,043,896)
Surplus / (Deficit)	\$121,511	(\$100,959)	(\$257,885)

Note: FY 2010 Budget was adopted prior to the completion of FY 2009 Actual Performance.

In addition, as recently noted by the City Auditor, from June 2007 through December 2009, quarterly oil production in Long Beach declined by 9.5 percent, thereby reducing the amount of Prop H revenue to the City.

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The FY 10 Prop H beginning fund balance of only \$121,511, plus expected revenue of \$3.66 million, may result in a projected year-end deficit of \$257,885. Additionally, the Prop H budget does not reflect the full labor and equipment expense for the Police Officers and Firefighters designated as Prop H personnel. The full FY 10 expense for the Prop H personnel exceeds the budgeted Prop H revenue by \$449,459.

As noted by the City Auditor, the projected deficit in the Prop H Fund is likely to continue, as lower revenue resulting from declining oil production is not sufficient to support the salary increases contained in public safety labor agreements.

Options to ensure the ongoing health of the Prop H Fund include:

- A General Fund subsidy of \$449,459 in FY 10 to fully support the public safety expenses supported by Prop H.
- Adjusting expenditures in the Police and Fire departments to align costs with actual Prop H revenue.

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CC: MAYOR AND MEMBERS OF THE CITY COUNCIL
SUZANNE FRICK, ASSISTANT CITY MANAGER
REGINALD I. HARRISON, DEPUTY CITY MANAGER