

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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

September 20, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Refer the Fiscal Year 2005 Third Quarter Budget Performance Report to the Budget Oversight Committee. (Citywide)

DISCUSSION

This report provides a summary update on the City's Fiscal Year 2005 (FY 05) budget performance through June 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 clearer picture of the City's financial situation. While the focus of this report is on the General Fund, any significant issues in other funds are noted accordingly.

Summary

As of the third quarter, the Current Adjusted Budget for expenditures for all Departments and all funds is \$2.23 billion. The current estimate for revenues for all Departments and all funds is \$1.97 billion. For the General Fund, the Current Adjusted Budget for expenditures for all Departments is \$377.9 million and the current estimate for revenue for all Departments is \$363.8 million. The difference between budgeted revenue and expense reflects the use of fund balance, transfers and use of bond proceeds. With 75 percent of the year complete, aggregate revenues and expenditures appear to be trending according to budget.

FY 05 is the second year of the Financial Strategic Plan (Plan). As such, over \$72 million in structural budget solutions have been included in the General Fund and related fund budgets over the past two 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 significant strain on the organization as it downsizes and becomes more efficient. While these solutions have been reflected in the budget, it appears that several key measures may not be fully implemented to realize structural savings in FY 05, including \$3 million in negotiated compensation solutions. Furthermore, while resources required to provide public safety, maintenance, library, recreation and other general government services have been reduced significantly, 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.

FY 05 General Fund Revenue

With nine months, or 75 percent of this fiscal year complete, \$305.1 million (or 83.9 percent) in budgeted General Fund revenue has been received. In aggregate, General Fund revenue is trending slightly above pace due to an increase in transfers from other funds to date and as a result of receiving the City's semi-annual property tax revenue from the County. Decreases in Sales Tax and Vehicle License Fees are offset by increases in the Property In-Lieu Taxes received from the State. The table below highlights year-to-date performance for selected General Fund revenues:

Revenue Source	FY 05 YTD Revenue	% of Adjusted Budget	Notes
Secured Property Tax	\$52,640,661	92.8%	Secured Property Tax is expected to finish the year \$2.2 million under budget. Exemptions and delinquencies are the major factors causing performance to be lower than expected. Trending high due to payment timing.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$22,679,568	104.0%	June YTD amount reflects ERAF III adjustment. Estimates to close are trending \$1.7 million above budget.
Sales and Use Tax (net of sharing agreements and adjusted for the Triple Flip)	\$36,420,915	90.2%	The Sales and Use Tax payments were reduced by 25 percent for the State Triple Flip. This is offset by the bi-annual Property Tax In-Lieu of Sales Tax. Additional sales tax receipts have come from the strong, with year-end estimates to close approximately 12.7 percent over the adjusted budget.
Utility Users Tax	\$29,550,585	73.0%	Collections are trending slightly below budgeted levels due in part to mild weather conditions through June, but are estimated to close on budget.
Business License Tax	\$7,273,331	77.8%	Collections are above budget due to an increased number of licenses, enhanced collection procedures and a CPI increase in the rate.
Transient Occupancy Tax	\$5,550,004	77.1%	Revenue from estimated Transient Occupancy Tax is expected to come in approx. \$471,000 over budget in FY 05 due to higher average room rates and occupancy rates.
Pipeline Franchise	\$6,100,261	83.3%	Estimates to finish the year are \$598,000 above budget.
Transfers From Other Funds	\$36,517,641	93.9%	These are expected to finish the year slightly above budget due to higher than budgeted oil transfers.

General Fund revenues for the current year are approximately \$21.1 million more than last year at this time. Overall, General Fund revenue estimates-to-close is at \$371.2 million, which is approximately 2.0 percent more than Current Adjusted Budget. All projected revenue has been taken into account as part of year-end estimates-to-close and in the FY 06 Proposed Budget.

Attachment A includes details on the Top 40 General Fund revenues, which combined represent about 91 percent of total revenue. **Attachment B** provides year-to-year analysis on the Top 15 revenue sources, which represent over 30 percent of General Fund revenue. Revenue within the Top 15 categories is on target at 87.7 percent of budget and slightly above FY 04 June YTD actuals.

General Fund Revenue By Department

At the Department level, **Attachment C** provides a summary of General Fund revenue performance. General Fund revenue by department is impacted by the variances mentioned in the previous section. Many of the departmental variances are captured in the footnotes of this attachment to reflect the continuing impact of the prior-periods on performance.

FY 05 General Fund Expenditure Performance

Expenditures in all funds are at 58.5 percent of budget, due to All Years Funds Carry-over, Capital Improvement Funds and Interfund Transfers. Expenditures for funds without All Years Carry-over are at 73.5 percent. **Attachment D** illustrates current expenditure levels for all funds. At the end of the third quarter, General Fund expenditures are at \$280.7 million (or 74.3 percent of budget).

Given remaining deficit reduction targets in the Plan for FY 05 and FY 06, it is imperative that maximum savings are generated during the current fiscal year to address current year targets, and to generate resources to balance the FY 06 budget. Given the extent of reductions made to department budgets during FY 04 and FY 05, generating substantial savings has become extremely difficult, especially with the continued expectations for full service delivery to the community. In February, the City Manager reinstated a strict hiring freeze and purchasing curtailment policies with the intent to generate savings to help address the City's ongoing budget challenges. As a result, General Fund Personal Services expenditures are \$191.5 million (or 74.2 percent of the budget) and Non-Personal expenses are tracking slightly below budget. While the hiring freeze has created vacancies and related savings, Personal Services expenditures reflect increasing overtime expenses in most departments utilized to maintain service levels to the greatest extent possible with decreased staff.

FY 05 General Fund Expenditures By Department

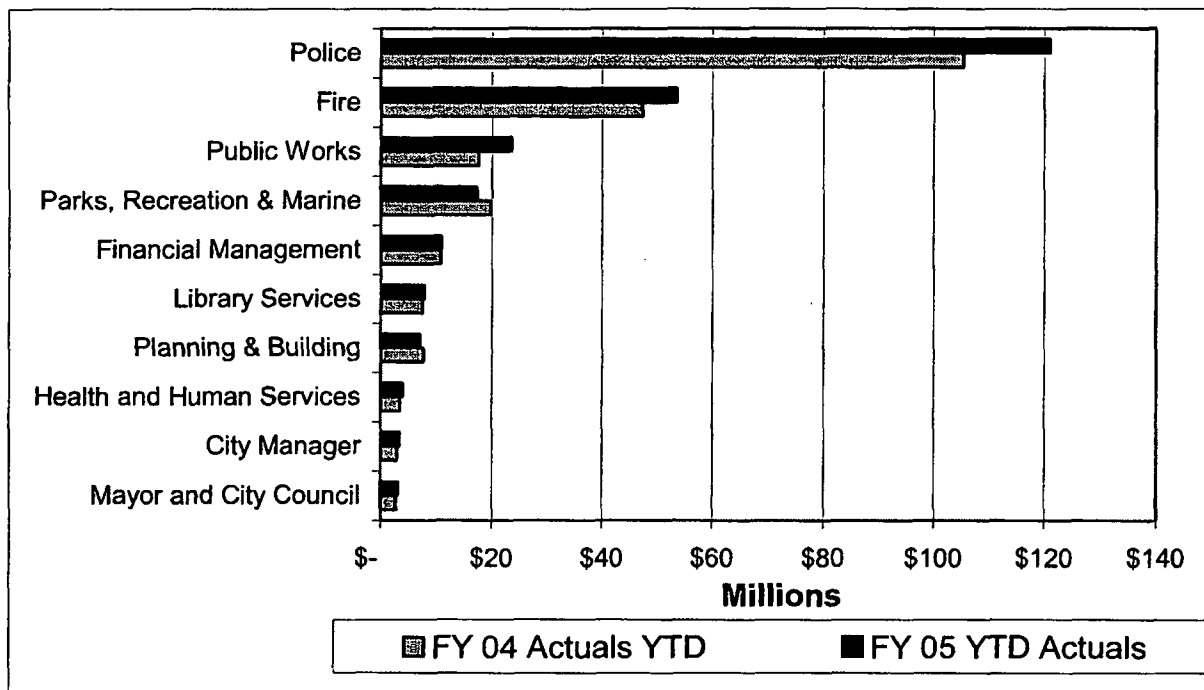
Total General Fund spending is on target to close the year on budget, with most departments having spent between 55 to 75 percent of their budget. Please see **Attachment E** for a listing of all departments' expenditure performance through June 2005, with any prior-period significant exceptions noted in the footnotes.

General Fund spending at the department level is, as anticipated, up 3.1 percent compared to prior year's actual expenditures to date. **Attachment F** includes an FY 04 to FY 05 comparison of expenditure performance by department. On a comparative level, FY 05 expenditures have increased over FY 04 due to:

- Reinstated pension (PERS) contributions that range from 15 to 25 percent of personnel costs, plus increased health insurance costs.
- The record-setting storm season resulted in a significant increase in tree removals, traffic support, beach maintenance, street repairs and public safety services, thereby causing unanticipated increases in overtime and other expenses.

The following chart compares FY 05 to FY 04 YTD Actuals for the Largest 10 General Fund Departments.

Expenditure Comparison FY 04 YTD – FY 05 YTD
 (Top 10 Departments by Total Budget)



Estimates- to-Close

As of June, it is estimated that close to 100 percent of the General Fund budget will be expended by the end of the fiscal year. While 17 of 19 General Fund departments are estimated to finish at 100 percent of budget or less (96.9 percent on average), the Fire Department (100.8 percent), and Citywide Activities (230.8 percent) require known budget adjustments to be brought to Council before the end of the fiscal year. In Citywide Activities, approximately \$5 million in anticipated department operational savings was budgeted in this department to account for hiring freeze savings. A fourth quarter budget adjustment will be requested for all departments, based upon actual savings, bringing all departments within budget, to reflect the anticipated structural savings achieved in the FY 05 budget.

Vacancy Analysis

As stated earlier, the City Manager reinstated a strict hiring freeze to ensure that critical salary savings would be carried over into FY 06. The hiring freeze does not apply to sworn or dispatch personnel, and critical service delivery and revenue generating positions are also being filled. As of June 1, 2005, the following vacancies exist:

- For City Manager-directed departments, General Fund vacancies total 170, with another 18 vacancies in Non-City Manager departments.
- Of the 188 Citywide vacancies in the General Fund, there are 74 sworn and dispatcher vacancies (resulting from attrition), and 114 civilian vacancies.**

- General and Related fund vacancies total 253 citywide, and vacancies in all funds total 473 citywide.

**Note that critical positions, such as sworn police and fire, and emergency dispatchers, among others, are exempt from the hiring freeze.

Other Funds and Performance Issues

Oil Revenue

As noted in the General Fund revenue section earlier in this report, oil prices continue to rise at a record pace with Wilmington Crude averaging \$38.37/bbl for the fiscal year through June, resulting in additional revenue. Higher expenses associated with increased drilling activity partially offset the short-term profitability of the oil operation. Some relief is expected in the form of higher profit transfers to the Tidelands Operating Fund (TOF) and the General Fund. As of June, the Department of Oil Properties increased projections for transfers to TOF by \$2.8 million and to the General Fund by \$1.1 million, increasing the total expected transfers to \$10.7 million and \$8.8 million respectively, which have been taken into account in the FY 06 Proposed Budget.

Federal Storm Damage Reimbursement

A report of \$842,000 in damage reimbursement requests was submitted to the Federal Emergency Management Agency (FEMA) for the January 2005 storms. Of this amount, approximately \$446,000 is for the General Fund. The City is currently waiting for approval from FEMA for these funds. A second report of approximately \$900,000 in damage reimbursement requests for the February 2005 storms is currently under review by the FEMA project manager, prior to official submission to FEMA for reimbursement consideration. Of this amount, approximately \$424,000 is General Fund. These reimbursements were incorporated into the FY 06 Proposed Budget.

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

MK:DW:gs

Attachments

APPROVED:


GERALD R. MILLER
CITY MANAGER