



# CITY OF LONG BEACH **NB-32**

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6<sup>th</sup> Floor • Long Beach, CA 90802

December 7, 2010

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive and file the Fiscal Year 2010 Year-End Budget Performance Report; and

Increase appropriations in the Gas Prepay Fund (EF 303) in the Department of Long Beach Gas and Oil by \$57,925,000 and in the Tidelands Oil Revenue Fund (NX 420) in the Department of Long Beach Gas and Oil by \$36,256,283 to reflect actual year-end performance. (Citywide)

## DISCUSSION

This report reflects the City's Fiscal Year 2010 (FY 10) budget performance through September 30, 2010. Please be advised the information provided is unaudited as the audit for FY 10 will not be completed until approximately March 31, 2011.

The report includes financial information for all funds and departments. While the financial report primarily discusses the General Fund, exceptional performance (both positive and negative) in other funds is highlighted where applicable.

## **Summary**

The FY 10 Adopted Budget totaled \$2.5 billion for the City's 23 departments, and was later amended to \$3.4 billion during the fiscal year by the City Council. Of that amount, \$384.3 million comprised the General Fund budget, which was subsequently increased by the City Council to \$387.6 million during the fiscal year.

As of fiscal year-end, actual expenditures for all departments and all funds were \$2.6 billion. Revenues for all departments and all funds were \$2.5 billion. Unspent grant and capital project funds will be carried forward into subsequent fiscal years to support multi-year projects or grant-funded activities.

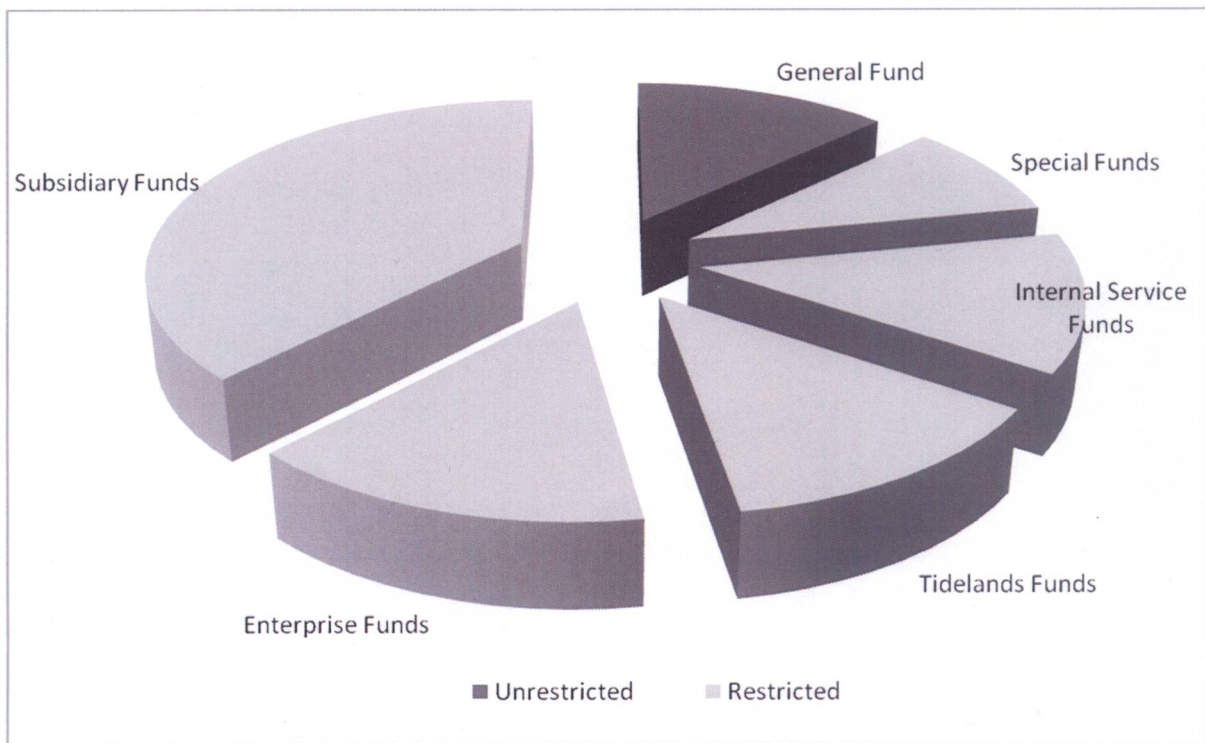
For the General Fund, actual expenditures for all departments were \$387.6 million, consistent with the Adjusted Budget of \$387.6 million. To assist departments in curtailing expenditures to end the year in balance, numerous cost-cutting measures were implemented during the fiscal year. Actual General Fund revenues for all departments totaled \$388.3 million. One-time revenue totaling \$6.8 million was received in FY 10 and was comprised of: 1) \$6 million from

additional Upland Oil transferred to the General Fund to mitigate mid-year revenue shortfalls; and 2) \$811,000 in Asset Forfeiture funds received by the Police Department for restricted public safety purposes only.

### FY 10 Expenditure Performance – All Funds

The City's Adopted FY 10 Budget for all funds includes \$2.5 billion of annual funds, \$349.7 million of carryover (multi-year grants and capital project funds), prior year encumbrances (goods and services ordered in FY 09 but received in FY 10) and City Council-approved budget amendments of \$551.8 million, bringing the total Adjusted City Budget to \$3.4 billion. Please see Attachment A for a breakdown of Citywide expenditures by fund.

*Exhibit 1 – All City Funds by Fund Type*



As illustrated in Exhibit 1 above, the City has six fund types divided into 35 funds that comprise the \$3.4 billion adjusted budget. Most of these funds are restricted funds, such as the Harbor Fund, Gas Fund and Tidelands Funds that are designated for specific and limited activities. The majority of core community services provided in the City, such as police and fire services, libraries and parks are largely supported by the General Fund, which comprises only 11.5 percent of the entire Adjusted City budget. For a discussion of notable fiscal performance in non-General Fund funds, please see the Other Funds section of this report.

**General Fund**

FY 10 Revenue

As of fiscal year-end, \$388.3 million of General Fund revenue was received including one-time revenue. General Fund revenue net of one-times was \$381.5 million. The General Fund mid-year shortfall was created by economically impacted revenue sources such as Sales and Use Tax, certain Property Taxes, Utility Users Tax, Pipeline Franchise Fees, Transient Occupancy Tax, Parking Citations, Interest Earnings on Pooled Cash and Oil Production Tax, among others. The following chart provides a more detailed discussion of key FY 10 revenue performance and sources.

Revenue Source	FY 10 Adjusted Budget	FY 10 Year-End Actuals	% Over/(Under) Budget	Notes
Secured Property Tax	\$66,100,000	\$58,688,898	-11.2%	The final secured property tax distribution from the County was received in August. The total year-end payments are net of administrative costs totaling \$1.8 million charged to the City. Please note that "Transfers from Other Funds" includes \$10.8 million borrowed from the Subsidence Fund to mitigate the shortfall created by the State take-away of secured property tax revenue in FY 10. Please note, property taxes have a lagging economic effect, hence the financial impact of the continuing housing market downturn will remain in FY11. The City's Assessed Valuation has decreased 2.9 percent, which will negatively impact FY 11 revenue.
Prior Year Secured Real Property Tax	\$5,000,000	\$3,371,144	-32.6%	Receipts demonstrated a major decline below budgeted levels due to a continued decrease in real estate sales activity and the market value of homes sold.
Sales and Use Tax, (includes the Triple Flip)	\$51,260,000	\$49,789,773	-2.9%	The Sales and Use Tax payments are reduced by 25 percent for the State Triple Flip and are offset by the bi-annual In-Lieu of Sales Tax payment from the State. Sales tax revenue was hit significantly by the national economic crisis, ending the fiscal year \$1.5 million (or 2.9%) under budgeted levels.
Pipeline Franchise Fee	\$8,270,955	\$5,531,293	-33.1%	Southern California Gas Pipeline Franchise fee revenue came in significantly below budgeted levels. Actual receipts demonstrated decreases in both the volume and the cost of gas over the same period last year. This is a very volatile revenue source and can fluctuate between \$5 million and \$12 million a year.
Parking Citations	\$15,588,828	\$13,326,150	-14.5%	Parking citation activity ended below budget by \$2.3 million (or 14.5%) below budgeted levels. The decline in revenue is due in part to the number of rain events as well as the timing of Holidays and their impact on street sweeping activities. It is also possible that the economy is impacting parking behavior, as residents try to avoid unnecessary fines and out-of-pocket costs.

Revenue Source	FY 10 Adjusted Budget	FY 10 Year-End Actuals	% Over/(Under) Budget	Notes
Utility Users Tax	\$41,860,000	\$39,232,417	-6.3%	Electric UUT collections ended 4.7% below budget despite Southern California Edison's increased rates for some customer classes during this fiscal year. Natural gas UUT collections were 31% below budget due to lower volumes of gas consumed and lower prices compared to the prior year. Water UUT collections ended 3% below budget due to the success of water conservation efforts. Telephone UUT collections came in slightly under budget by less than half a percent. However, please note, the City Auditor, City Attorney and the Department of Financial Management are reviewing Telephone UUT remittances for compliance with Measure G, telecommunication changes approved by the voters in November 2008, to ensure the City is receiving telephone UUT revenue it is entitled to.
Interest-Pooled Cash	\$2,506,950	\$862,976	-65.6%	Interest earnings from pooled cash came in below budget due to continued historically low interest rates.
Transient Occupancy Tax	\$8,020,000	\$7,637,304	-4.8%	The slowing economy has had a negative impact on Long Beach tourism, which has led to declines in hotel room occupancy and daily room rates in Long Beach hotels.
Business License Tax	\$11,550,000	\$11,230,819	-2.8%	Various business assistance efforts and the annual CPI adjustment maintained collections near budgeted levels.
Uplands Oil Transfer	\$6,547,022	\$13,593,144	107.6%	Budgeted FY 10 revenue is based on an oil price of \$40/bbl. The price of Wilmington Crude oil averaged \$71/barrel in FY 10. These actuals reflect this increase in oil price and a \$6 million increase in the Upland Oil Transfer to help the General Fund end the year in balance and an extra \$990,000 for additional sidewalk repair projects.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$40,300,000	\$40,545,212	.61%	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. In-Lieu VLF payments slightly exceeded budgeted expectations.

Please note that Transient Occupancy Tax (TOT) revenue ended the year at \$7,637,304, reflecting a \$382,696 or 4.8 percent shortfall from the budgeted amount of \$8,020,000. This is primarily due to a decrease in hotel occupancy and daily room rates resulting from the current economic crisis. As TOT revenue came in under budget, no additional TOT revenue is available for deposit into the Housing Trust Fund.

A summary of the top 40 General Fund revenues with year-end actuals is included in Attachment B.

Please also note that pursuant to Generally Accepted Accounting Principles, the sale of City Hall East will need to be reflected in FY 11. Hence, FY 10 General Fund actual does not reflect

any revenue associated with the sale of City Hall East as escrow will not close until the first quarter of FY 11. As the economy continues to struggle, it is strongly recommended that the proceeds from the sale of City Hall East, once received, remain unspent until FY 11 General Fund year-end results are final and audited to ensure a balanced budget.

#### FY 10 Revenue by Department

Attachment C provides a breakdown of General Fund revenue performance by department. Many of the departmental variances are captured in the footnotes to this attachment. Public Works realized the highest level of General Fund of all operating departments at \$25.3 million, followed by Financial Management at \$18.7 million and the Police Department at \$17.9 million.

#### FY 10 Expenditures by Department

Actual General Fund spending for FY 10 at the department level came in at \$387.6 million, or at 100 percent of budget as shown in Attachment D, which provides General Fund spending by department. The ending fund balance for the General Fund was \$859,464 reflecting a mere two-tenths of 1 percent for potential audit adjustments. All departments ended the year with General Fund expenditures within adjusted budget limits, with the exception of Citywide Activities due to the transfer of City Place Parking costs to the Citywide Activities budget to align expenses consistent with where the City Place revenue is collected, and a higher than anticipated sales tax revenue rebate to Edison Material Supply (EMS) at the end of the fiscal year. The budgeted EMS sales tax receipts exceeded expectations for FY 10 resulting in a higher rebate to EMS than budgeted. Additionally, Citywide Allocations exceeded budget due to technical issues relating to the budgeting of the PERS prepay and funding the contractual obligation of the Fire and Police Health Care Supplemental Annuity approved by the City Council, which was first implemented in FY 10.

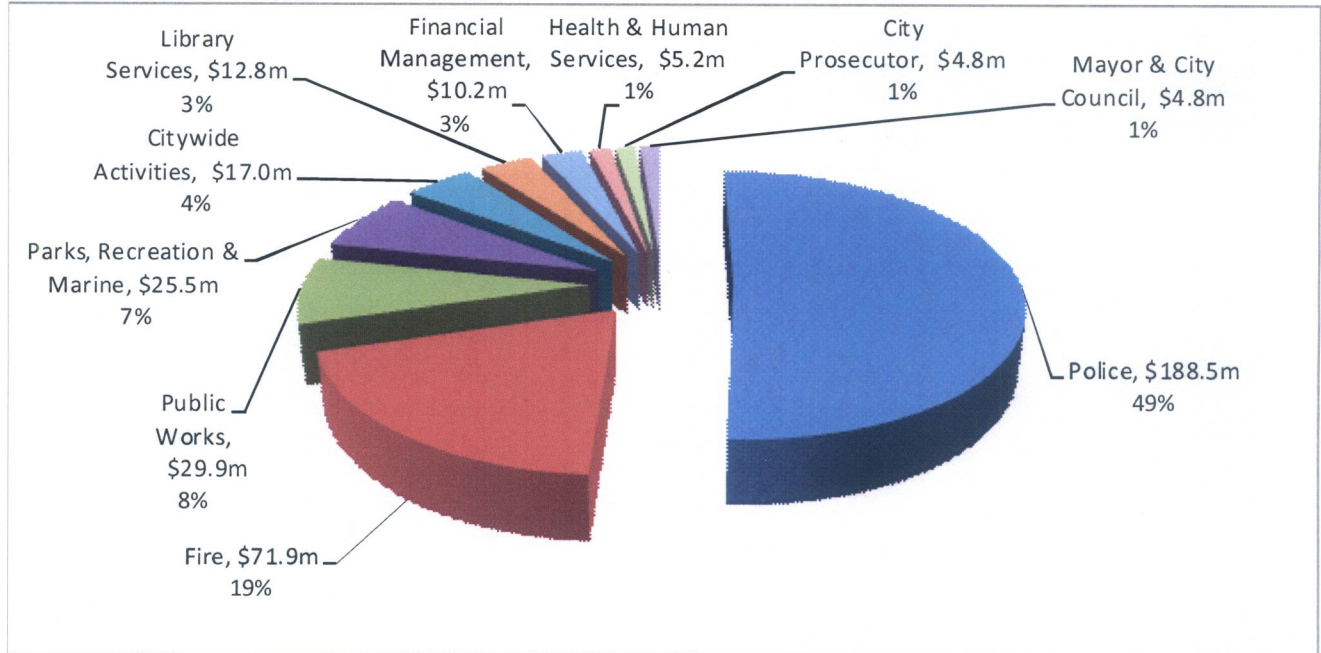
The Legislative Department ended FY 10 \$93,024 under budget. The savings from Districts that came in under budget will be set-aside for potential future projects, per City Council direction and approval. As only certain Districts came in under budget, it is recommended a similar methodology be used as in FY 09 to distribute these funds, where Districts that came in under budget received allocations based on their proportionate share of departmental savings.

All departments and employees should be commended for their responsiveness to the fiscal crisis and the sensitivity and availability of General Fund resources. The commitment of City Manager departments to meet soft savings targets, and the constraint demonstrated by non-City Manager departments was admirable, and directly related to the City's ability to end the year in balance.

Exhibit 3 below shows the City's top 10 General Fund expenditures by department in FY 10 as a percentage of total General Fund expenditures. In aggregate, the Top 10 represents \$368.7 million, or 95.6 percent, of General Fund expenditures. Together, Police and Fire account for 67.5 percent of General Fund expenditures. The Police, Fire, Public Works, Parks, Recreation and Marine, and Library Services departments account for 85.2 percent of General Fund expenditures.



**Exhibit 3 – Largest FY 10 Year End General Fund Expenditures by Department, as a Percentage of the \$387.6 million Total Expenditures.**



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

**FY 10 Vacancies**

Another source of savings for departments was salary savings due to vacancies during FY 10. The citywide vacancy rate for all funds was 9 percent (or approximately 525 FTEs), and the vacancy rate for the General Fund was 9 percent (or approximately 270 FTEs). Workforce management to limit vacancies is always a challenge given general turnover from terminations, resignations and retirements. Given the natural rate of vacancies in departments, and to ameliorate the budget deficits created by fully budgeting for all positions, a 2.25 percent Attrition Factor is built into every General Fund department’s budget. In FY 10, the budgeted 2.25 percent Attrition Factor generated \$2.7 million in savings, and was well below the citywide General Fund vacancy rate of 9 percent. Please note the FY 11 Adopted Budget also includes the 2.25 percent Attrition Factor as it has proven to be an effective way to achieve savings in the General Fund without cutting programs and services to the public.

**Other Funds**

The following section provides a discussion of notable fiscal performance in FY 10 in funds other than the General Fund.

**Proposition H: Police and Fire Public Safety Oil Production Act (Restricted)**

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Police & Fire Public Safety Oil Prod Act	\$150,280	-	\$3,928,995	\$3,883,571	\$195,704

On May 1, 2007, the voters approved a special tax of 25 cents, with an annual CPI increase on every barrel of oil produced to be used specifically for police officers and firefighters known as the Police and Fire Public Safety Oil Production Tax (Proposition H). Prop H began FY 10 with a balance of \$150,280.

Since 2007, oil production has dropped an average of 545,241 barrels annually or 4 percent. At the start of FY 10, the Prop H Fund supported the cost of 12 Firefighters, 14 Motor Officers, and associated vehicles. However, due to declining oil production and related revenue, a one-time transfer from the General Fund in the amount of \$383,000 was needed to keep the fund in balance. For FY 11, the Police and Fire departments have reduced Prop H staffing to 10 Motor Officers and 9 Firefighters to ensure a structurally balanced fund.

Fleet Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Fleet Services	\$10,614,097	(\$146,325)	\$34,560,502	\$33,139,128	\$11,889,146

The Fleet Fund, designated number 8 in the Top Green Fleet in America during FY 10, supports the purchase and maintenance of the City's fleet, including fire engines, heavy-duty trucks, street sweepers, police cars and code enforcement sedans, among many others. The Fleet Fund began FY 10 with a balance of \$10.6 million, comprised of multi-year accumulated vehicle replacement funds. Up until FY 09, the Fleet Fund had a persistent structural imbalance. However, in FY 10 fleet management worked with its client departments to revise the criteria for vehicle replacement based on age, mileage and condition, which has allowed the Fleet Fund to end the year with a positive balance. For FY 11, Fleet Operations will continue to move towards more preventative methods and a measured capital replacement program to keep the fund in balance.

Towing Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Towing	1,024,644	-	8,558,415	8,970,782	612,278

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 balance of \$1.0 million. The FY 10 Adopted Budget reflected a \$3.5 million transfer to the General Fund which was made in full.

In FY 10, the Towing Division worked to be more efficient and lower operational costs. The Division monitored work schedules in order to reduce the use of contract tows, resulting in a 40 percent cost reduction from approximately \$308,000 in FY 09 to \$184,000 in FY 10. The Division also implemented a new Title Surrender Program that allowed vehicle owners to surrender the title of their impound vehicle and avoid incurring additional debt. This allows the

City to auction the vehicles, keeping all the proceeds of the sale and eliminate the payment of any overages to the State. Additionally, FY 10 revenue remained steady despite reduced tow requests.

In FY 11, the use of staff time to offset contractor expenditures will continue to be monitored. In addition, the Bidder Card fee will be increased from \$5 to \$20, and is expected to generate greater revenue in lien sales. This revenue enhancement, along with other revenue generating measures such as the Title Surrender Program, will be key in helping the Towing Fund meet the budgeted General Fund transfer in FY 11. Please note that in FY 10, the Adopted Budget included additional revenue estimates for a contract with an outside collections agency for uncollected towing fees and fines. In FY 10, actual revenue receipts did not meet budgeted expectations. The new Towing Collections contract should continue to be closely monitored in FY 11.

Health Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Health	\$49,330	-	\$37,143,610	\$36,835,156	\$357,784

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. The Health Fund began FY 10 with a slight fund balance of \$49,330.

The Health Department's proactive efforts to build a more structurally balanced budget has resulted in the Fund's ability to pay down its cash loan from the General Fund by \$250,000; thus the new balance of the cash loan from the General Fund is \$3,509,403. The Department has \$7.7 million in accounts receivables for federal and State grants for FY 11. The Health Fund ended FY 10 with a fund balance of \$357,784; however, on a cash-flow basis, it continues to struggle albeit to a lesser degree, given persistent state budget delays.

Development Services Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Development Services Fund	\$35,754	-	\$12,797,328	\$11,982,736	\$850,345

The Development Services Fund was established in FY 07 as a means of segregating development fees paid for permits, plan check 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 higher construction costs, foreclosures, and loan defaults. Since FY 07, the number of permits issued by the Development Services Department has declined from 12,472 to 8,265 in FY 10, while the number of inspections performed decreased from 87,713 to 51,913 over the same period of time.



In FY 10, the Department started the year with a staffing reduction of 18 FTE compared to the previous year. With no end in sight to the real estate crisis, the Department took additional steps mid-year to reduce their expenditures. This mid-year correction resulted in an ending fund balance of \$850,345. In FY 11, the Department will continue to monitor fund performance to ensure expenditures are in line with revenues. In addition, in FY 11, the Development Services Fund will reimburse the General Fund for a subsidy of \$250,000 that was provided in FY 09, potentially reducing the Development Services fund balance by a commensurate amount.

#### Capital Projects Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Capital Projects	\$25,793,576	\$25,163,390	\$17,171,995	\$25,321,886	\$42,807,074

The Capital Projects Fund began FY 10 with a balance of \$25.8 million, which consists of General Fund support, various State and Federal grants and revenue from special assessment districts, transportation improvement fees and park impact fees. During the fiscal year, \$25.3 million was spent on sidewalk, street and alley improvements, storm drain system upgrades, the 14<sup>th</sup> Street Skate Park, Rancho Los Cerritos, and various bikeway and traffic enhancements. We are pleased to report that despite fiscal constraints, the City continues to make improvements to its capital and infrastructure assets, albeit at a modest pace.

#### Tidelands Operating Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Tidelands Operating	\$22,217,538	\$14,795,817	\$98,990,938	\$90,194,864	\$45,809,429

The Tidelands Fund supports operations located within boundaries along the City's coastline and tidal region such as the Convention Center, Parks and Recreation facilities and programs, beach and marina maintenance, lifeguards and marine safety. The Tidelands Operating Fund began FY 10 with a balance of \$22.2 million, and continues to be dependent on annual support from the Harbor and net revenues from oil operations in the Tidelands area. Despite a higher than budgeted average oil price of \$71/bbl and a resultant increase in oil revenue, over \$320 million of deferred capital and infrastructure needs present a significant long-term challenge, with only the most urgent projects funded for FY 11.

Uplands Oil Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Upland Oil	\$4,225,505	(\$300,743)	\$25,556,133	\$20,390,709	\$9,090,187

The Uplands Oil Fund supports oil operations outside of the Tidelands area. The Uplands Oil Fund began FY 10 with a balance of \$4.2 million. In FY 10, the budgeted price of oil was \$40/bbl. The City's General Fund benefits from operating transfers of net revenues from this Fund. The total transfer to the General Fund in FY 10 was \$13.6 million, compared to the budgeted transfer of \$6.5 million, due to increased oil prices.

Oil has proven to be a heavily volatile commodity and reliance upon its success for General Fund operations puts the City in a precarious position. To continue to mitigate this risk, the FY 11 Adopted Budget is predicated on a conservative transfer from the Uplands Oil Fund based on \$45/bbl. Should the price of oil continue to perform at better than budgeted levels, it is recommended that resultant revenues be used to mitigate any potential mid-year revenue shortfalls, if needed, and/or for with any surplus to be set-aside for one-time needs such as additional sidewalk repairs, and other capital projects.

Special Advertising and Promotions Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Special Adverstising & Promotion	\$745,811	(1,200,000)	\$6,097,997	\$5,423,095	\$220,713

The Special Advertising and Promotions Fund (SAP) is the primary funding source for the City's annual contract with the Long Beach Convention and Visitor's Bureau (CVB), the Arts Council, the Office of Special Events and Filming (OSEF) and other promotional activities under the Office of the City Manager. Primary revenue sources include Transient Occupancy Taxes (half of all TOT generated in hotels not located in the downtown redevelopment area or at the airport), OSEF permits and fees, and filming revenue. In FY 09, the SAP Fund's cash balance went into the negative, which meant that payments to outside vendors had to be immediately halted and/or reduced. As such, and consistent with the City Council Financial Policy related to the creation of adequate reserves, a 10 percent emergency and operating reserve has been established.

In FY 10, the SAP Fund began the year with a \$745,811 balance. The TOT revenue estimates looked bleak from the onset of the fiscal year and, therefore, several precautionary steps were taken to maintain a positive fund balance and contain the expenditures of the fund. All of these measures were implemented with the intent to stabilize the fund that has experienced a decline in revenue. For FY 11, SAP revenue and expense budgets were further reduced to address the uncertain economic forecast.

Employee Benefits Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
Employee Benefits Fund	\$3,324,212	(\$3,972,228)	\$209,637,334	\$205,050,518	\$3,938,800

As previously reported, the Employee Benefits Funds (EBF) is carrying significant long-term unfunded employee benefit liabilities currently exceeding \$1.2 billion. As discussed previously in numerous study sessions, unfunded earned sick leave banks that employees may use to pay health insurance premiums after retirement would cost \$102 million (and growing) to fully fund, while the implicit rate subsidy, or the difference between the actual cost of retiree health care and the amount retirees are currently paying, would cost approximately \$121 million to fully fund. Unfunded pension liabilities significantly exceed even these amounts, at over \$1 billion, and will be discussed in greater detail at a study session to be held on December 7, 2010. Please note that a portion of the \$3,972,228 reserved (shown above) in FY 10 has been set aside to start paying down these balances.

SERRF Fund (Restricted)

Fund Type	Beginning Fund Balance FY 10	Reserves/Adjustments to Fund Bal	FY 10 Actual Revenue	FY 10 Actual Expense	Ending Fund Balance FY 10
SERRF	\$36,756,300	-	\$48,225,866	\$50,392,652	\$34,589,515

For FY 10, SERRF was initially budgeted to transfer \$3 million to the General Fund as the City's share of profit. In addition, there was an approximate 10 percent variance between tip fees collected and disposal costs, resulting in an additional \$2.3 million available for return to the City. We are pleased to report that in reviewing the Joint Powers Authority agreement related to the operation of SERRF, and through the collective efforts of the Department of Financial Management, the City Attorney's Office and the Department of Gas and Oil, it was determined this rebate can be refunded to the City's General Fund instead of the Refuse Fund as has been the past practice. This action increased the SERRF contribution to the General Fund by \$2.3 million and reduced the transfer to the Refuse Fund by an equal amount in FY 10 (and future years). The FY 11 Adopted General Fund Budget assumes this additional recurring revenue being transferred in from SERRF.

**Technical Year-End Appropriation Adjustments**

Gas Prepay Fund (Restricted)

The Gas Prepay Fund provides a long-term, reliable supply of natural gas for resale to customers. This gas was purchased at market prices and then discounted by a significant fixed amount due to the prepayment of this gas supply through the Long Beach Bond Financing Authority (LBBFA). A budget adjustment in the amount of \$57,925,000 is required, per the recommendation of the City's outside auditors, KPMG, LLC, to more accurately account for the transactions within the fund. There is sufficient revenue from the tender offer proceeds to cover the additional expense of the budget adjustment, which primarily serves as a technical year-end correction.

Tidelands Oil Revenue Fund - TORF (Restricted)

The FY 10 Adopted Budget for the Tidelands Oil Revenue Fund of \$70.7 million was based on a conservative projection of \$40 per barrel of oil produced. A second quarter budget adjustment was requested in May 2010, which effectively raised the budget to \$261.7 million, reflecting a per barrel price of \$70/bbl. Data for oil production typically lags 60 to 90 days after the close of a production month. The final amount of oil revenue received equals \$287 million. To correctly close FY 10, an appropriation increase is necessary in the amount of \$36,256,283 in the Tidelands Oil Revenue Fund to account for actual oil production and higher oil prices toward the end of the year and resultant payments to the state. There is sufficient revenue to account for the requested appropriation increase.

**FY 11 General Fund Outlook**

In FY 10, the City continued to feel the impact of the aftermath of the worst recession since the Great Depression. At the end of the fiscal year, local unemployment reached 11.8 percent, compared to the national average of 9.6 percent. Also, declines in core General Fund revenue (e.g., property tax, sales tax, oil production tax, parking citation and UUT revenue, among others) forced the City to implement mid-year savings targets and other deficit reduction strategies to end the year in balance. As we look to FY 11, significant fiscal challenges still remain on the horizon. Thus, the City enters FY 11 with the implementation of the Mayor's Veto, which reduced the General Fund budget by one percent to further reduce costs and improve the City's financial sustainability. Long Beach's financial outlook is influenced by multiple factors, including national and local economic trends, the State of California's budget, current commitments for service delivery and unfunded yet negotiated commitments to the workforce. The national and local economic crises will continue to impact key revenue sources, including sales tax and property tax.

Although many outside factors influence Long Beach's financial outlook, the City Manager and Department of Financial Management will continue to take an increasingly conservative and cautious position regarding department expenditures, as well as revenue estimates. The management team has implemented and will maintain numerous strategies to proactively address this economic crisis and its impacts. The Department of Financial Management will continue to monitor the fiscal situation to determine if mid-year budget corrections are necessary. The volatility of the State budget crisis, as well as the shifting revenue impacts of the continued recession, warrant considerable prudence in the management of the FY 11 budget.

**FY 12 and Beyond**

The City is experiencing the impacts of a protracted economic recovery that is keeping major revenue streams lethargic. Due to the sluggish economy, coupled with upcoming significant increases in salary and pension costs, the City's General Fund is facing structural deficits in FY 12 through FY 14. The escalating cost of public pensions, as a result of the catastrophic market losses experienced by CalPERS in FY 09, is one of the most significant threats to the City's fiscal sustainability. In order to replenish the CalPERS' Plan, significant increases in annual pension payments will need to be made to CalPERS over many years. Long-term,



meaningful pension reform that reduces the costs for current and future employees will be critical in addressing the future shortfalls the City faces in funding its on going commitments.

**Conclusion**

FY 10 continued the fiscal challenges posed in FY 09; namely, providing high quality services to the community under strained fiscal conditions. Heavy declines in major revenue sources required numerous strategies to be implemented to ensure a balanced budget. Fortunately, the strategies put into place early in the Fiscal Year led to a balanced budget at year-end. Given sharp declines in the City's major revenue streams, the FY 11 budget will also be significantly challenged and will need to be monitored closely throughout the fiscal year. It is strongly recommended that the expenses be kept as low as possible throughout the year to ensure a balanced budget. As the economy struggles to rebound, the City's General Fund revenue will face a tough task in balancing increases in the costs of providing necessary services to the community. In addition, as the State looks to solve its budget shortfalls with local revenues, the City stands ready to take swift, immediate action if necessary to further reduce costs while protecting core services.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

FISCAL IMPACT

Increase appropriation in the Gas Prepay Fund (EF 303) by \$57,925,000 and in the Tidelands Oil Revenue Fund (NX 420) by \$36,256,283 in the Department of Long Beach Gas and Oil (GO) to accurately reflect FY 10 year-end transactions.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



LORI ANN FARRELL  
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

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ATTACHMENTS

APPROVED:

  
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PATRICK H. WEST  
CITY MANAGER

Year End 2010  
Expenditure Analysis by Fund  
Fiscal Year 2010  
(100% of Year Completed)  
Unaudited

Attachment A

Fund	FY 10 New Allocation	Estimated All-Years Carryover <sup>1</sup>	FY 10 Adopted Appropriation	Amendments <sup>2</sup>	Year-End Adjustments	Adjusted Budget	Year-End Actuals (unaudited)	
<b>Funds with All Years Carryover</b>								
Airport	\$37,204,261	\$30,129,568	\$67,333,829	\$38,395,484		\$105,729,314	\$69,711,877	65.9%
Business Assistance	675,996	(234,209)	441,787	300,000		741,787	345,358	46.6%
Capital Projects	5,019,201	49,500,270	54,519,471	8,708,135		63,227,605	25,321,886	40.0%
Civic Center	2,401,467	2,207,705	4,609,172	34,315,707		38,924,879	37,498,130	96.3%
Community Development Grants	31,506,742	35,312,476	66,819,218	26,963,402		93,782,620	38,617,056	41.2%
Fleet Services	33,951,850	840,510	34,792,360	6,582,384		41,374,744	33,139,128	80.1%
Gas	96,757,969	1,208,457	97,966,426	35,299,980	57,925,000	191,191,407	149,276,712	78.1%
Gasoline Tax Street Improvement	7,808,973	21,926,803	29,735,776	19,438,054		49,173,830	19,312,426	39.3%
General Grants	6,293,947	11,009,980	17,303,927	9,132,597		26,436,524	13,415,174	50.7%
General Services	38,166,555	189,233	38,355,788	975,491		39,331,279	36,138,497	91.9%
Harbor	879,222,103	-	879,222,103	-		879,222,103	574,035,912	65.3%
Health	41,727,578	29,575,921	71,303,499	2,939,795		74,243,295	36,835,156	49.6%
Housing Authority	69,413,372	764,004	70,177,376	3,000,000		73,177,377	71,926,379	98.3%
Housing Development	21,386,907	67,423,986	88,810,893	19,355,588		108,166,482	43,997,033	40.7%
Insurance	39,627,348	-	39,627,348	1,124,973		40,752,321	38,748,237	95.1%
Police & Fire Public Safety Oil Production Act	3,886,970	-	3,886,970	-		3,886,970	3,883,571	99.9%
Redevelopment	153,775,370	55,218,212	208,993,582	30,690,811		239,684,393	133,092,096	55.5%
Refuse/Recycling	45,628,503	90,213	45,718,716	432,133		46,150,849	39,990,512	86.7%
SERRF	51,570,779	-	51,570,779	-		51,570,779	50,392,652	97.7%
Sewer	21,597,406	-	21,597,406	-		21,597,406	14,575,926	67.5%
Tidelands	112,431,361	20,660,890	133,092,251	18,606,383		151,698,633	121,815,153	80.3%
Transportation	15,463,493	23,872,736	39,336,229	(2,942,525)		36,393,704	17,527,834	48.2%
Water	92,494,894	-	92,494,894	-		92,494,894	85,483,843	92.4%
<b>SUBTOTAL</b>	<b>\$ 1,808,013,047</b>	<b>\$ 349,696,755</b>	<b>\$ 2,157,709,802</b>	<b>\$253,318,392</b>	<b>\$57,925,000</b>	<b>\$ 2,468,953,194</b>	<b>\$ 1,655,080,545</b>	<b>67.0%</b>
<b>Funds Without All Years Carryover</b>								
General	\$ 384,333,509	\$ -	\$ 384,333,509	\$ 3,268,213		\$ 387,601,722	\$ 387,595,786	100.0%
Belmont Shore Parking Meter	668,275	-	668,275	352,135		1,020,410	1,019,537	99.9%
Certified Unified Program Agency (CUPA)	1,236,316	-	1,236,316	-		1,236,316	1,217,792	98.5%
Employee Benefits	220,797,435	-	220,797,435	(157,779)		220,639,656	205,050,518	92.9%
Development Services	13,057,431	-	13,057,431	6,055		13,063,486	11,982,736	91.7%
Park Development	307,093	-	307,093	-		307,093	43,226	14.1%
Parking & Business Area Improvement	7,319,800	-	7,319,800	1,433,178		8,752,978	7,279,300	83.2%
SERRF JPA	11,295,285	-	11,295,285	-		11,295,285	11,116,028	0.0%
Special Advertising & Promotion	6,086,957	-	6,086,957	105,875		6,192,831	5,423,095	87.6%
Tideland Oil Revenue	70,735,534	-	70,735,534	190,963,988	36,256,283	297,955,805	297,955,804	100.0%
Towing	9,465,723	-	9,465,723	2,009		9,467,732	8,970,782	94.8%
Upland Oil	14,907,730	-	14,907,730	8,374,385		23,282,115	20,390,709	87.6%
<b>SUBTOTAL</b>	<b>\$ 740,211,087</b>	<b>\$ -</b>	<b>\$ 740,211,087</b>	<b>\$ 204,348,058</b>	<b>\$36,256,283</b>	<b>\$ 980,815,428</b>	<b>\$ 958,045,313</b>	<b>97.7%</b>
<b>TOTAL - All Funds</b>	<b>\$ 2,548,224,134</b>	<b>\$ 349,696,755</b>	<b>\$ 2,897,920,889</b>	<b>\$457,666,450</b>	<b>\$94,181,283</b>	<b>\$ 3,449,768,622</b>	<b>\$ 2,613,125,859</b>	<b>75.7%</b>

**Notes:**

<sup>1</sup> Estimated All-Years Carryover is composed of multi-year grants and Capital Improvement Program (CIP) funds; unspent amounts are carried over to future years.

<sup>2</sup> Amendments reflect budget adjustments approved by the City Council during the fiscal year including All-Years Carryover Budget Adjustments.

**Year End 2010  
General Fund Revenue (Top 40)  
Fiscal Year 2010  
(100.0% of Year Completed)  
Unaudited**

<b>Notes:</b>
<sup>1</sup> FY 10 Year-End Actuals reflect the State's Prop 1A borrowing of \$10.8 million in secured property tax revenue. The negative impacts of this State takeaway was mitigated by an identical \$10.8 million loan from the subsidence Fund.
<sup>2</sup> Actual sales activity was virtually flat from last year and came in below budget due to the continued sluggish economy.
<sup>3</sup> Electric Users Tax & Penalties revenue is lower than budgeted due to continued energy conservation efforts.
<sup>4</sup> Gas Users Tax & Penalties revenue is significantly lower than anticipated due to a decrease in gas commodity prices and low consumption. This is an extremely volatile revenue source and can fluctuate between \$5 million to \$11 million per year .
<sup>5</sup> As a result of street flooding caused by rain events , the timing of holidays, parking citation revenue did not meet budgeted expectations.
<sup>6</sup> Collections came in lower than budget due to decreases in gas commodity prices and consumption.
<sup>7</sup> The economic recession continues to negatively impact Long Beach tourism, which led to declines in hotel room occupancy and daily rates in Long Beach hotels.
<sup>8</sup> Budgeted revenue is based on an oil price of \$40/bbl. The price of Wilmington Crude oil averaged \$71/barrel in FY 10. These actuals reflect this increase in oil price and a corresponding \$6 million increase in the Upland Oil Transfer to bridge a mid-year revenue shortfall in the General Fund.
<sup>9</sup> Contracts for services with outside agencies, including LA County, LBCC and LBUSD were smaller than originally anticipated. Additionally, \$250,000 in revenue from contracting in Fire dispatch services was never realized.
<sup>10</sup> During difficult economic times delinquency rates for secured property tax increase. While the economy has begun to recover, high unemployment and a tight job market are expected to continue to drive up delinquent property tax payments.
<sup>11</sup> Revenue was negatively impacted by the worst El Nino in memory and dramatic declines in discretionary income, the Long Beach Golf Operation did not endure the dramatic declines in rounds played or revenue received as other municipally run or privately owned golf courses throughout Southern California.
<sup>12</sup> Intra-agency agreements for services, including Airport and Civic Center Security were smaller than originally anticipated.
<sup>13</sup> The Police Department issued fewer traffic citations in FY 10, with fewer officers issuing citations. The rate of collection on these citations is unknown, because the LA County Court system handles all collection and distribution of these fines and does not provide collection data to the City.
<sup>14</sup> Barrels of oil produced declined by 3.3 percent from the previous year.
<sup>15</sup> Interest earnings from pooled cash are below budget due to historically low interest rates.
<sup>16</sup> Fire Plan Check revenue is over budget as a result of a large one-time project at the Port of Long Beach.
<sup>17</sup> Actuals reflect a reduction of \$500,000 in budgeted revenue from Blair Field which was not realized in FY 10.
<sup>18</sup> The new Refuse Hauler Franchise Fee performance for only three quarters of revenue met budgeted expectations for the entire year.
<sup>19</sup> Parking revenue related to the Airport Lot D and the City Place parking structure declined over the previous year.
<sup>20</sup> Transfers from Other Funds includes \$10.8 million borrowed from the Subsidence Fund to fill the revenue shortfall created by the State take-away of secured property tax revenue and a \$3.7 million transfer from Downtown Transient Occupancy Tax formerly used to pay a portion of annual Aquarium debt service requirements.

**Year End 2010  
General Fund Revenue (Top 40)  
Fiscal Year 2010  
(100.0% of Year Completed)  
Unaudited**

<b>Notes:</b>
<sup>1</sup> FY 10 Year-End Actuals reflect the State's Prop 1A borrowing of \$10.8 million in secured property tax revenue. The negative impacts of this State takeaway was mitigated by an identical \$10.8 million loan from the subsidence Fund.
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**Year End 2010**  
**Revenue Analysis by Department**  
**General Fund - Fiscal Year 2010**  
**(100.0 % of Year Completed)**

Attachment C

**Unaudited**

Department	FY 10 Adopted Budget	Amendments <sup>1</sup>	Adjusted Budget	Year-to-Date Actuals (unaudited)	
Mayor and City Council	\$ -	\$ -	\$ -	\$ -	-
City Attorney <sup>2</sup>	250	-	250	12,739	5095.4%
City Auditor	-	-	-	31,178	-
City Clerk <sup>3</sup>	893,521	-	893,521	935,482	104.7%
City Manager	-	-	-	920	-
City Prosecutor	-	24,792	24,792	39,129	157.8%
Civil Service	-	-	-	101	-
Community Development <sup>4</sup>	5,091,808	100,000	5,191,808	4,962,939	95.6%
Citywide Activities	288,524,968	-	288,524,968	293,030,113	101.6%
Development Services <sup>5</sup>	1,249,049	25,000	1,274,049	718,303	56.4%
Financial Management	19,597,456	-	19,597,456	18,688,113	95.4%
Fire <sup>6</sup>	13,039,950	150,579	13,190,529	14,534,554	110.2%
Health and Human Services <sup>7</sup>	1,824,412	351,000	2,175,412	2,234,232	102.7%
Library Services <sup>8</sup>	551,741	-	551,741	621,652	112.7%
Parks, Recreation & Marine <sup>9</sup>	9,776,820	265,636	10,042,456	9,280,813	92.4%
Police <sup>10</sup>	18,220,299	955,100	19,175,399	17,906,170	93.4%
Public Works <sup>11</sup>	26,564,640	-	26,564,640	25,296,636	95.2%
<b>TOTAL</b>	<b>\$ 385,334,914</b>	<b>\$ 1,872,107</b>	<b>\$ 387,207,021</b>	<b>\$ 388,293,073</b>	<b>100.3%</b>

**Notes:**

<sup>1</sup> Amendments reflect budget adjustments during the fiscal year.

<sup>2</sup> A majority of revenue received was one-time in nature and was not anticipated, some examples were a rebate for printer purchased and refund from LA County Sheriff for auction sale of City Property.

<sup>3</sup> The City Clerk's Office was reimbursed for elections conducted for LBUSD and LBCC.

<sup>4</sup> A low number of people are paying citations related to Code Enforcement in Community Development.

<sup>5</sup> Parking revenue is under budget due to delays in the automation program, which were not completed until the end of the fiscal year.

<sup>6</sup> Fire plan check fees coming in over budget due to a boost in the Port's construction activity and the receipt of funds to purchase five ambulances.

<sup>7</sup> Revenue projections based on the receipt of grant funds and projected increase in licensing revenue.

<sup>8</sup> Revenue for fines and charges have exceeded budget.

<sup>9</sup> The majority of this decreased revenue is attributable to a loss of expected Blair Field concession and permit fees and lower than expected golf revenue.

<sup>10</sup> Intra and Inter-agency agreements for services, including those with LBUSD, Airport and Civic Center Security, were smaller than originally anticipated. Additionally, the Police Department issued fewer traffic citations in FY10, with fewer officers issuing citations.

<sup>11</sup> Lower than budgeted parking citation can be partially attributed to the number of rain events as well as the timing of Holidays and their impact on street sweeping activities.

**Year End 2010**  
**Expenditure Analysis by Department**  
**General Fund - Fiscal Year 2010**  
**(100.0% of Year Completed)**  
**Unaudited**

Attachment D

Department	FY 10 Adopted Budget	Amendments <sup>1</sup>	Adjusted Budget	Year-End Actuals (unaudited)	
Mayor and City Council	\$ 4,857,270	\$ 4,737	\$ 4,862,007	\$ 4,768,983	98.1%
City Attorney	1,225,945	148,820	1,374,765	1,275,495	92.8%
City Auditor	2,152,102	109,400	2,261,502	2,258,335	99.9%
City Clerk	5,784,826	83,410	5,868,236	4,254,220	72.5%
City Manager	2,539,561	72,979	2,612,540	2,483,320	95.1%
City Prosecutor	4,660,730	147,706	4,808,436	4,798,519	99.8%
Civil Service	1,911,452	66,102	1,977,554	1,909,121	96.5%
Community Development	4,601,846	266,983	4,868,828	4,329,249	88.9%
Citywide Activities <sup>2</sup>	14,343,497	(2,078,585)	12,264,912	16,961,552	138.3%
Development Services	1,058,245	34,542	1,092,787	528,621	48.4%
Financial Management	9,982,400	272,451	10,254,851	10,177,173	99.2%
Fire	72,173,522	255,837	72,429,359	71,922,767	99.3%
Health and Human Services	4,764,418	400,307	5,164,725	5,161,749	99.9%
Library Services	12,673,618	180,133	12,853,751	12,838,011	99.9%
Parks, Recreation & Marine	25,170,607	564,374	25,734,981	25,504,047	99.1%
Police	187,207,293	1,904,058	189,111,351	188,466,148	99.7%
Public Works	29,226,178	834,960	30,061,138	29,958,476	99.7%
<b>TOTAL</b>	<b>\$ 384,333,509</b>	<b>\$ 3,268,213</b>	<b>\$ 387,601,722</b>	<b>\$ 387,595,786</b>	<b>100.0%</b>

**Notes:**

<sup>1</sup> Amendments reflect budget adjustments approved by the City Council during the fiscal year, but are primarily due to prior-year encumbrances (purchase orders).

<sup>2</sup> Citywide Activities (XC) include debt service payments, as well as interdepartmental transfers, including transfers to the Capital Improvement Fund. XC exceeded budget due to higher than anticipated rebate to Edison Material Supply (EMS) and PERS prepay.



**City of Long Beach Memorandum**  
*Working Together to Serve*

## REQUEST TO ADD AGENDA ITEM

**Date:** December 3, 2010  
**To:** Larry Herrera, City Clerk  
**From:** Patrick H. West, City Manager *[Signature]*  
**Subject:** Request to Add Agenda Item to Council Agenda of December 7, 2010

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Pursuant to Municipal Code Section 2.03.070 [B], the City Councilmembers signing below request that the attached agenda item (due in the City Clerk Department by Friday, 12:00 Noon) be placed on the City Council agenda under New Business via the supplemental agenda.

The agenda title/recommendation for this item reads as follows:

**Receive and file the Fiscal Year 2010 Year-End Budget Performance Report; and**

**Increase appropriations in the Gas Prepay Fund (EF 303) in the Department of Long Beach Gas and Oil by \$57,925,000 and in the Tidelands Oil Revenue Fund (NX 420) in the Department of Long Beach Gas and Oil by \$36,256,283 to reflect actual year-end performance. (Citywide). (Citywide)**

Council District	Authorizing Councilmember	Signed by
3	GARY DeLONG	<i>[Signature]</i>
2	Sija Louenthal	<i>[Signature]</i>
4	Patrick O'Donnell	<i>[Signature]</i>

Attachment: Staff Report dated December 7, 2010

CC: Office of the Mayor