



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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

R-34

May 23, 2006

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive the Mid-Year Budget Performance Report and defer discussion until the City Council Budget Workshop planned for June 13, 2006 (Citywide)

DISCUSSION

This report provides an update on the City's Fiscal Year 2006 (FY 06) budget and operational performance through March 31, 2006. 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.

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 March 31, 2006, the total adjusted General Fund expenditure budget was \$369.8 million, with budgeted revenue of \$361.8 million. The difference between budgeted revenue and expense reflects the use of fund balance. After six months of the fiscal year, overall revenue and expenditures are on target. With 50 percent of the fiscal year complete, approximately 52.7 percent of anticipated General Fund revenue has been collected. During the same period, approximately 47.3 percent of the adjusted General Fund budget has been expended. The total Adjusted City Budget for all funds as of March 31, 2006 was \$2.558 billion. With 50 percent of the year complete, expenditure performance in all funds is at approximately 37.5 percent year-to-date.

For the first time this fiscal year, estimates-to-close for both revenue and expense are available to report. Such estimates provide an important guidepost for future budget decisions both in the current year and as the City plans for next year's budget. According to department estimates, General Fund revenue is expected to come in at 100.9 percent of the adjusted budget, which is \$3.4 million more than

originally projected. General Fund expenditures are expected to come in at 100 percent of the adjusted budget. While performance to date and estimates-to-close are promising, it is critical to maintain the utmost fiscal restraint as several million dollars of expected, but still to be achieved optimization related cost savings, one-time revenue and unbudgeted expenses related to newly negotiated compensation increases put increased pressure on the budget.

Focus on Results (FOR) Long Beach is a commitment to performance management designed to help departments improve operational efficiency and effectiveness, and to provide an improved means by which the City can communicate public value created by its programs and services. 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. By renewing departments' focus on results, it will be easier to demonstrate them to the City Council and community. As this is the first year of FOR Long Beach implementation, data collection systems and analysis are developing and will be implemented over time. Nonetheless, significant progress has been made toward the full integration of the principles and management tools of FOR Long Beach into the daily business of the City. This mid-year report, as with all quarterly budget and operational performance reports going forward, includes Highlights of Departmental performance in **Attachment G**.

FY 06 General Fund Revenue

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). Therefore, the following update in revenue performance must be reviewed within this fluid context.

Overall, year-to-date General Fund revenue is \$190.6 million, or approximately 52.7 percent of total projected revenue, and is in line with the expected performance at mid-year. Total General Fund revenue is estimated to finish the fiscal year at 100.9 percent, or \$3.4 million over budget. The table below highlights year-to-date performance for selected General Fund revenues:

Revenue Source	FY 06 YTD Revenue	% of Adjusted Budget	FY 06 Estimates to Close	Notes
Secured Property Tax	\$33,824,387	58.3%	\$58,100,000	The second of three secured property tax payments from the county has been received. Secured Property Tax is expected to finish the year at or slightly above budgeted levels.
Sales and Use Tax (net of sharing agreements and adjusted for the Triple Flip)	\$25,358,897	53.1%	\$49,714,466	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 payment from the State. Sales tax performance is 4% ahead of budget, due in large part to the one-time receipt of an additional \$1,033,253 for an Office Depot sales tax settlement.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$14,738,667	58.4%	\$29,727,000	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. Collections are trending above budget due to growth in the City's gross assessed property valuation that is used as the methodology to compute the In-Lieu VLF.

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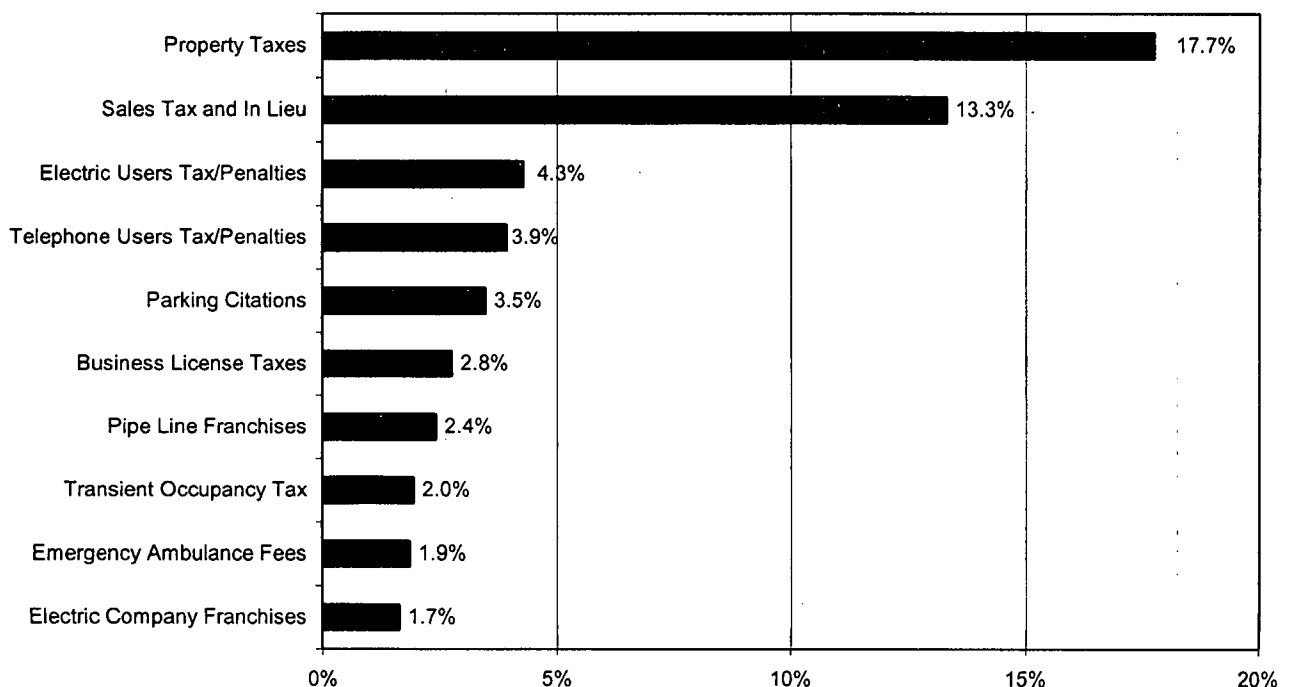
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Revenue Source	FY 06 YTD Revenue	% of Adjusted Budget	FY 06 Estimates to Close	Notes
Utility Users Tax	\$20,444,252	49.5%	\$41,146,000	Collections are trending at budgeted levels for electric UUT and water UUT. Natural gas UUT collections are higher than anticipated despite the warm winter due to high gas prices. Telephone UUT collections are lower, likely due to increased cell phone industry price competition.
Parking Citations	\$6,636,324	61.7%	\$11,551,640	Collections for Parking Citations are trending above budget due to fully staffed enforcement positions.
Business License Tax	\$5,283,349	53.2%	\$9,980,000	Collections are trending at budget and slightly above FY 05 levels due to a continued increase in the number of licenses issued and annual CPI adjustments.
Emergency Ambulance Fees	\$3,592,796	43.6%	\$8,480,000	Compared to FY 05, Emergency Ambulance fees are higher due to the implementation of the Basic Life Support (BLS) Pilot Ambulance Program. The Fire Department anticipates exceeding its revenue projections for this new program by year-end.
Transient Occupancy Tax	\$3,736,465	45.8%	\$7,942,000	Transient Occupancy Tax is trending near, but below budgeted levels. Occupancy levels are on target, but room rates have been slightly below.
Pipeline Franchise	\$4,639,272	57.1%	\$7,601,000	Southern California Gas Pipeline Franchise fee revenue is trending below budget by 6.5%. Though natural gas prices are higher, the volume transferred to the electricity plants during the first quarter was nearly half that of the same period in FY 05.

General Fund revenue estimates-to-close are at \$365.2 million, which is 0.9 percent more than the Current Adjusted Budget. This could equate to approximately \$3.4 million in additional revenue, much of which is one-time (e.g. Upland Oil transfer, Office Depot Settlement and prior-year secured real property tax payments.) A summary of the top 40 General Fund revenues with estimates-to-close is included in **Attachment A**, and a year-to-year (FY 05 to FY 06) 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 \$190.6 million Total Year-to-Date General Fund Revenue



Revenue performance exceptions are limited in number at mid-year of the fiscal year. A notable variance at the department level is that Community Development revenue is \$2,718,726 or 33.9 percent of budget. This is for several reasons. The \$1 million in budgeted revenue for marketing and advertising will not be realized in FY 06 (but is expected for FY 07). The execution of the contract with the marketing firm selected through the RFP process is awaiting approval by Council. In addition to this, expected revenues from parking, the County, and departmental transfers will not be realized until the second half of 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 one-time 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 with estimates-to-close by department.

FY 06 General Fund Expenditures

The Adopted General Fund budget for FY 06 was \$362.1 million. As of March 31, 2006, the total adjusted General Fund budget was \$369.8 million, including City Council approved budget adjustments totaling approximately \$7.7 million. The overall year-to-date General Fund spending is 47.3 percent of budget. Department estimates-to-close are in line with the adjusted budget at 100.0 percent, which reflects expenditures associated with the second half of the fiscal year, including salary adjustments and summer programs. **Attachment D** provides a listing of all departments' year-to-date General Fund expenditure performance with estimates-to-close.

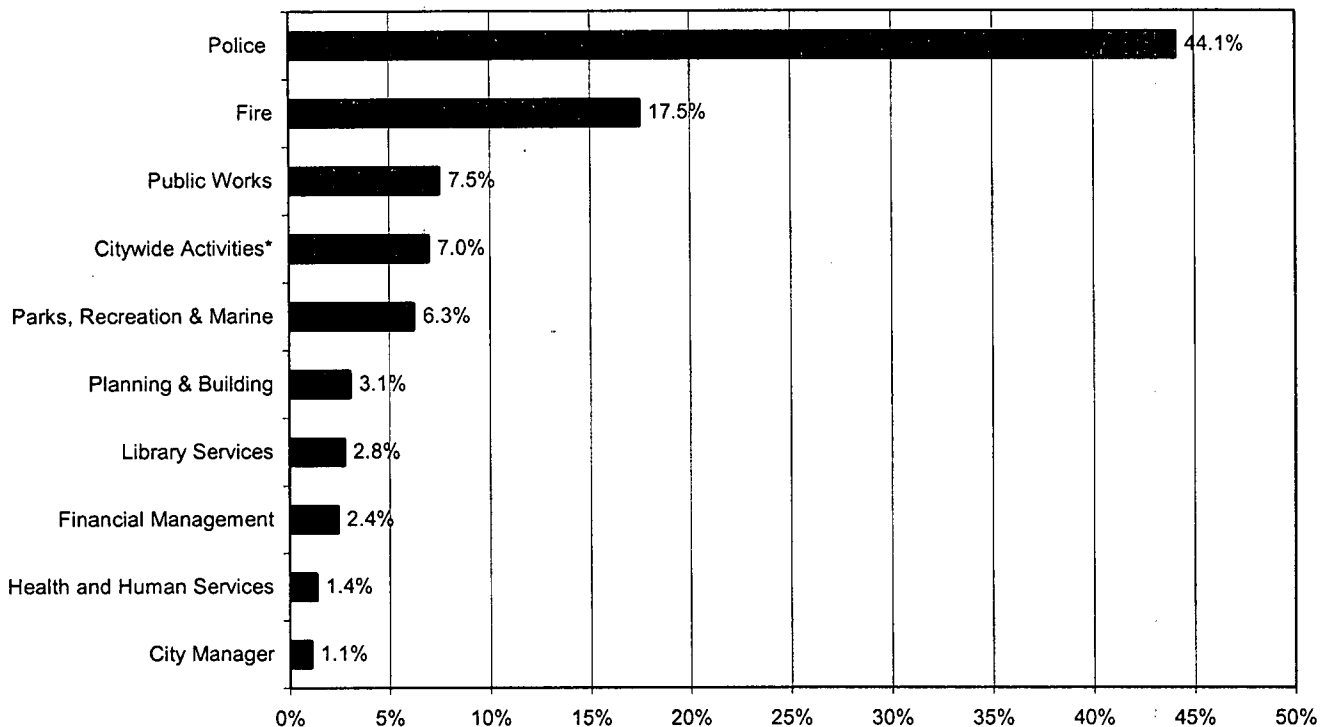
FY 06 General Fund Expenditures by Department

Though there were few expenditure performance exceptions at the department level, those worth noting follow:

- Citywide Activities reflects spending at 115.6 percent of budget year-to-date, with an estimate-to-close of 159.7 percent. This is primarily due to the fact that the Adjusted Budget reflects anticipated savings from optimization studies. These structural savings are still anticipated, but will likely be realized fully by next fiscal year. The Citywide Activities budget will be covered by a combination of using unanticipated one-time revenues and adjustments to other departments' budgets prior to year-end.
- Community Development has spent only 36.6 percent of its budget year-to-date. The department attributes a lower average spending rate on the pending commencement of several contracts in the second half of the fiscal year, and Code Enforcement rent payments that will begin in the third quarter.

At mid-year, the majority of General Fund expenditures have come from departments providing public safety services. Of the \$174.7 million expended to date, the Police Department (44.1 percent) and Fire Department (17.5 percent) comprised 61.6 percent of the total General Fund year-to-date expenditures. Exhibit 2 below 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 \$174.7 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 47.3 percent of the \$369.8 million budget compared to 48.2 percent of the \$377.6 million budget for the mid-year of FY 05.

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, prior year encumbrances (goods and services ordered in FY 05 but not yet received), and mid-year City Council approved budget amendments. Combined, the total Adjusted City Budget as of March 31, 2006 was \$2.558 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 50 percent of the year complete, expenditure performance in all funds is at approximately 37.5 percent year-to-date. However, it is important to recognize that only 46 percent of pay periods have been recorded, as pay periods do not usually coincide with the end of a month or quarter. Overall, there are no fund performance expenditure anomalies to note.

Other Significant Issues

Police Department Expenses Relating to March Immigration Reform Protests

In anticipation of potential crowd control problems or acts of vandalism, the Long Beach Police Department operated at a heightened level of readiness March 27 to April 3, 2006 in response to student immigration reform demonstrations. This heightened level of readiness resulted in the Department incurring unbudgeted expenses amassing to \$524,000. Of this total, \$345,000 comprised of 6,972 hours of expensed straight time, and \$179,000, the cost of 3,607 hours of overtime expense.

Oil Revenue

Wilmington Crude continues to rise above the budgeted price of \$35/bbl, with the price at \$55.35/bbl, as of March 28, 2006. This results in additional payments to the State, as well as increased one-time 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 \$11.2 million, while the transfer to the General Fund will increase from \$8.2 million to \$10.2 million. Additional oil transfers to the General Fund will be needed to offset the cost of fuel for the City's fleet of vehicles, as those costs have risen at a comparable rate. Additional budget appropriations for oil payments and transfers will be requested if oil prices remain high.

GASB 45: Other Post Employment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) issued a new accounting standard, Statement No. 45, requiring the use of a new methodology for government agencies to compute and disclose their cost of providing post-employment benefits such as health care, dental, vision life and disability insurance to its retirees.

Municipalities across the nation are calculating their Other Post Employment Benefits obligations to comply with GASB 45. Nationwide, the total estimated public section liability is \$3 trillion. For the State of California, the projected retiree healthcare costs are staggering; between \$40 and \$70 billion over the next 30 years. The City of Long Beach has engaged the services of an actuary to calculate the short- and long-term liabilities associated with OPEB in order to meet the deadline to incorporate GASB 45 in its FY 08 audited financial statements. The total impact of this unfunded liability will likely be significant and must be an important consideration in the upcoming financial discussions and labor negotiations.

Health Fund

The General Fund has traditionally provided some matching funds to Health grants accounted for in the City's Health Fund. This match has been in the form of a General Fund transfer equivalent to the City's overhead (ie. Citywide Indirect Costs) that the Health Fund would otherwise have to pay. The annual Indirect Cost Allocation Plan was not completed until late last fiscal year, and in producing the FY 06 Budget, the General Fund operating transfer to the Health Fund was inadvertently understated by the amount of the normal match. This issue will be corrected through a Third Quarter budget adjustment.

Focus on Results – Operational Performance

As of March 31, 2006, most City Manager departments have completed drafts of their Strategic Business Plans, and by June 2006 all Strategic Business Plans will be finalized. As part of this planning process, departments have taken input from community and employee stakeholders and utilized City Council's stated priorities, the Strategic Plan 2010 and other important City planning documents to help inform the discussion and identification of key issues confronting the department over the next 2 to 5 years. Strategic objectives have been developed to guide the departments in addressing those issues, and departments continue to refine the development of full families of performance measures (outcome, output, demand and efficiency) to track departmental progress in achieving the intended results for the community. Full development of meaningful performance measures will serve as the basis for budgeting, managing, and ultimately decision-making for results.

Since the beginning of this fiscal year, departments have been tracking and reporting on some basic workload performance measures on a monthly basis. These will be refined and expanded as Strategic Business Plans are completed and tracking systems are put in place. Highlights of the first six months of performance information are provided in **Attachment G**. With the advantage of six months of performance information for key performance measures, we are able to view a snapshot of how City programs are performing. Over time, as we gain more experience with the collection and analysis of performance data, we will be better able to utilize this performance information to manage our operations.

FY 07 General Fund Outlook

The City is committed to solving the remaining \$10 million structural deficit with the adoption of the FY 07 budget. As was anticipated two years ago by staff, the passage of State Proposition 1A has prevented the State from usurping local revenues and in turn has made prediction of City funding much more certain. Staff is confident that the local economy will continue its solid growth, and that key City revenues will also remain strong. This assumption is consistent with the Economic Forecast Report just released by Dr. Joseph Magaddino, Chairman, Department of Economics, California State University, Long Beach, which included the passage: "Overall, Long Beach is well positioned to continue to attract job growth" and "...expect stronger growth in taxable sales as the regional economy improves."

There are difficult decisions to be made in order to finally solve the structural deficit, but staff remains very engaged in looking at solutions and committed to delivering the first structurally balanced General Fund budget in over twenty years.

Conclusion

Despite the positive year-to-date performance and estimates-to-close, 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 some of the current year planned savings from optimization studies will likely not be realized until next fiscal year. Also, the judicious use of additional one-time resources earned this fiscal year must be allocated toward the City's highest priority one-time uses (e.g. capital projects, pay-down existing debt or other non-recurring needs). 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 double-digit increase to General Fund costs that is anticipated to absorb most, if not all, of the projected net structural revenue growth. With current and future uncertainties, we must resist the mounting pressure to unilaterally invest early positive revenue dividends to restore programs or expand services.

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 A. KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

MK:DW:KB:TL
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ATTACHMENTS



GERALD R. MILLER
CITY MANAGER