**CITY OF LONG BEACH**

DEPARTMENT OF FINANCIAL MANAGEMENT

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

September 6, 2011

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive supporting documentation into the record, conclude the public hearing and take the actions necessary to adopt the Fiscal Year 2012 budget as listed in Attachment A of this letter. (Citywide)

DISCUSSION

On August 2, 2011, the City Manager's Proposed Budget for Fiscal Year 2012 (FY 12) was delivered by the Mayor to the City Council and community with recommended amendments for consideration. Subsequent hearings were set for August 2, August 16, August 23, August 30, and September 6, along with approximately three Budget Oversight Committee (BOC) meetings and 11 community meetings at which the FY 12 Proposed Budget was discussed. We are pleased to report that through the scheduled hearings, BOC and community meetings, presentations have been made by multiple City departments resulting in 19 separate opportunities for public feedback, deliberation and input.

At the conclusion of the hearings, the City Council will be asked to amend the proposed budget as it deems appropriate, and to adopt the proposed budget as amended. Since the publication of the FY 12 Proposed Budget, updated estimates of revenue and expense, which address technical corrections as well as decisions made by elected offices, are listed by fund and department in Attachments B and C to this letter, respectively.

The Appropriations Ordinance officially adopts the FY 12 budget and authorizes expenditures in conformance with the adopted budget. To become effective October 1, 2011, this Ordinance must include a finding of emergency. Specific resolutions provide for approval of the budgets for the Harbor, Sewer and Water funds, and certain fee adjustments. Requests for approval include the FY 12 Capital Improvement Program; the Mayor's Recommendations; and the Budget Oversight Committee's Recommendations to the FY 12 Proposed Budget.

This letter was reviewed by Assistant City Attorney Heather A. Mahood on August 19, 2011.

TIMING CONSIDERATIONS

In accordance with the Long Beach City Charter, the FY 12 budget must be adopted by September 15, 2011, following at least one public hearing. Should the City Council fail to adopt the budget on or by that date, the City Manager's FY 12 Proposed Budget shall be deemed the budget for the 2012 fiscal year. The Mayor then has five calendar days from City Council adoption of the budget to use his veto authority. The City Council would then have until September 30, 2011, to override veto action by the Mayor with a two-thirds supermajority vote.

FISCAL IMPACT

The City Charter requires that the Appropriations Ordinance shall govern and control the expenditure and commitment amounts stated therein relating to the City's departments, offices and agencies during each fiscal year. The total FY 12 budget for all departments and funds is \$4,057,654,963 which comprises \$2,779,631,046 in new appropriation and \$1,278,023,917 in estimated carry-over from FY 11 for multi-year grants and projects.

The Appropriations Ordinance, included as Attachment A-18 to this letter, totals \$2,480,775,505 for all funds except Harbor, Water and Sewer, and \$2,484,086,963 for all departments except Harbor and Water. The \$3,311,458 difference between funds and departments in the Appropriations Ordinance is due to general City indirect costs budgeted in the Department of Financial Management but charged to the Harbor, Water and Sewer funds, which are not included in the Appropriations Ordinance by fund.

The proposed Harbor, Water and Sewer Fund budgets are in separate City Council ordinances included as Attachment A-1 and A-4 to this letter, respectively, and total \$949,227,699. The budget for the Harbor Department was adopted by the Board of Harbor Commissioners by minute order on June 20, 2011. The budget for the Water Department was adopted by the Board of Water Commissioners by resolution on June 23, 2011.

All user fees and charges in the attached Master Fee and Charges Schedule (A-5) have been increased by the City Cost Index (CCI), a calculation of the projected increase in the City's cost from FY 11 to FY 12, except for those fees that are set using other criteria. In addition to the CCI-based fee changes, some fees have been added or adjusted due to a change in service or other bases. For details regarding these proposed new fees and non-CCI fee adjustments, please see the List of Proposed Fee Adjustments for FY 12 that has been incorporated as Exhibit C to the Master Fee and Charges Resolution.

HONORABLE MAYOR AND CITY COUNCIL

September 6, 2011

Page 3

Other requested City Council actions include approval of the FY 12 One-Year Capital Improvement Program (CIP) budget, which is contained in the Appropriations Ordinance. The Planning Commission, at its meeting of August 18, 2011, approved the CIP for FY 12 for conformance with the General Plan. Any projects that are not in conformance with the Plan will be highlighted by Development Services staff and steps to secure conformance will be outlined.

Motions approving the budgets of the Redevelopment Agency's (RDA) Project Area Committees (PACs) for the Central Long Beach, the West Long Beach Industrial and the North Long Beach Project Areas and the Long Beach Housing Development Company (HDC) are requested. The PAC budgets are included in the budget of the Development Services Department. In addition, a motion to find that the contribution of North Redevelopment Project Area funds to Central Redevelopment Project Area low-and-moderate-income housing efforts will benefit the North Redevelopment Project Area is requested. The Redevelopment Agency adopted its FY 12 budget on June 20, 2011, premised on no changes to California Redevelopment Law (Health and Safety Code Section 33000 *et seq.*). Approximately one week later, AB 1X 26 and AB 1X 27, which respectively eliminated and recreated redevelopment agencies on a voluntary basis, were enacted. In August 2011, the City Council approved an ordinance pursuant to AB 1X 27 to participate in the voluntary redevelopment program at a cost of approximately \$34 million. AB 1X 26 and AB 1X 27 have been stayed by the California Supreme Court; however, the Agency may continue to pay its existing obligations, which are well within the proposed budget. If AB 1X 27 is upheld, the Agency's overall budget will not change but funds will need to be reallocated to make the payment.

A motion to amend the Departmental Organization Ordinance is also being requested. This amendment incorporates changes to departments, bureaus, and divisions for Fiscal Year 2012. These organizational changes are necessary to implement changes reflected in the Proposed FY 12 budget. The Salary Resolution is also included for adoption.

The City Council is also requested to adopt the Resolution establishing the "Gann Appropriations Limit" (Limit) for general purpose expenditures. In November 1979, the voters of the State of California approved Proposition 4, also known as the "Gann Initiative." The Initiative places certain limits on the amount of tax revenue that can be appropriated each fiscal year. The Limit is based on actual appropriations during FY 79 and guards against overspending proceeds of taxes. Only those revenues which are considered as "proceeds of taxes" are subject to the Limit. The Limit is recalculated each fiscal year based on certain inflation and population factors provided by the State. The Proposed Budget includes tax revenue estimates that are at 39.36 percent of the 2011-2012 Appropriations Limit and, therefore, does not exceed the Limit. This calculation is reviewed by the City Auditor for conformance to the law.

HONORABLE MAYOR AND CITY COUNCIL
September 6, 2011
Page 4

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

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ATTACHMENTS

APPROVED:



PATRICK H. WEST
CITY MANAGER

List of Requested Fiscal Year 2012 Budget Adoption Actions

1. Adopt the Resolution approving the FY 12 budget for the Long Beach Harbor Department as adopted by the Board of Harbor Commissioners on June 20, 2011. (A-1)
2. Declare an emergency to exist. (A-2)
3. Declare the Ordinance approving the Resolution No. WD-1285 establishing the rates and charges for water and sewer service to all customers, as adopted by the Board of Water Commissioners on June 23, 2011, as an Emergency Ordinance, read, and adopted as read and laid over to the next regular meeting of the City Council for final reading. (A-3)
4. Adopt the Resolution approving the FY 12 budget of the Long Beach Water Department as adopted by the Board of Water Commissioners on June 23, 2011. (A-4)
5. Adopt the Resolution amending the master fee and charges schedule for specified city services for citywide fees and charges for the City of Long Beach. (A-5)
6. Approve the FY 12 One-Year Capital Improvement Program. (A-6)
7. Adopt a motion approving the budgets for the Redevelopment Agency's Project Area Committees in the amounts of \$50,000 for Central Long Beach, \$80,000 for West Long Beach Industrial, and \$50,000 for North Long Beach. (A-7)
8. Adopt the Resolution finding that the use of taxes allocated to the North Redevelopment Project on behalf of the Central Redevelopment Project for the purpose of increasing, improving and preserving the community's supply of low- and moderate-income housing will be of benefit to the North Redevelopment Project. (A-8)
9. Adopt a motion approving the budget for the Long Beach Housing Development Company in the amount of \$20,193,989. (A-9)
10. Adopt a motion approving the transfer of \$16,920,700 from the Harbor Revenue Fund to the Tidelands Operating Fund. (A-10)
11. Declare the Ordinance amending the Departmental Organization Ordinance read the first time and laid over to the next regular meeting of the City Council for final reading. (A-11)
12. Adopt the amended Salary Resolution for FY 12. (A-12)
13. Adopt the Resolution adopting an appropriations limit (Gann) for FY 12 pursuant to Article XIII (B) of the California Constitution. (A-13)
14. Adopt the Mayor's proposed funding recommendations, as amended, to the FY 12 Proposed Budget. (A-14)

List of Requested Fiscal Year 2012 Budget Adoption Actions

15. Adopt the Budget Oversight Committee's proposed funding recommendations, as amended, to the FY 12 Proposed Budget. (A-15)
16. Adopt a motion amending the proposed FY 12 budget. (A-16)
17. Declare an emergency to exist. (A-17)
18. Declare the Appropriations Ordinance for FY 12, creating and establishing the funds of the Municipal Government and appropriating money to and authorizing expenditures from said funds and for said fiscal year as an Emergency Ordinance, read, and adopted as read and laid over to the next regular meeting of the City Council for final reading. (A-18)

FISCAL YEAR 2012 APPROPRIATIONS ORDINANCE BY FUND

| <u>FUND</u> | FY 12 | | FY 11 ESTIMATED | FY 12 |
|---|--|----------------|-------------------|----------------------|
| | <u>PROPOSED</u> <u>EXPENDITURES</u> | <u>CHANGES</u> | <u>CARRYOVER*</u> | <u>APPROPRIATION</u> |
| GENERAL FUND | 392,919,799 | (915,198) | - | 392,004,602 |
| GENERAL GRANTS FUND | 6,316,419 | 52,502 | 11,051,337 | 17,420,258 |
| POLICE & FIRE PUBLIC SAFETY OIL PROD ACT FUND | 3,133,760 | 1,544 | - | 3,135,304 |
| HEALTH FUND | 38,775,090 | 381,108 | 27,986,543 | 67,142,740 |
| PARKING & BUSINESS AREA IMPROVEMENT FUND | 6,178,583 | 53,286 | - | 6,231,869 |
| SPECIAL ADVERTISING & PROMOTION FUND | 5,251,736 | (3,493) | - | 5,248,243 |
| UPLAND OIL FUND | 18,348,325 | 1,302,532 | - | 19,650,857 |
| HOUSING DEVELOPMENT FUND | 28,191,550 | (14,190) | 55,104,629 | 83,281,989 |
| BELMONT SHORE PARKING METER FUND | 674,147 | (212,275) | - | 461,872 |
| DEVELOPMENT SERVICES FUND | 12,299,709 | (400,662) | - | 11,899,047 |
| BUSINESS ASSISTANCE FUND | 724,197 | (909) | 1,340,574 | 2,063,862 |
| COMMUNITY DEVELOPMENT GRANTS FUND | 31,126,960 | (2,966,776) | 29,985,248 | 58,145,432 |
| PARK DEVELOPMENT FUND | 3,735 | (3,735) | - | - |
| GASOLINE TAX STREET IMPROVEMENT FUND | 16,662,565 | (8,636) | 21,805,942 | 38,459,871 |
| TRANSPORTATION FUND | 15,882,549 | (3,017) | 18,448,967 | 34,328,498 |
| CAPITAL PROJECTS FUND | 4,875,477 | 4,532 | 159,084,775 | 163,964,784 |
| DEBT SERVICE FUND | - | 10,813,439 | - | 10,813,439 |
| CIVIC CENTER FUND | 1,293,530 | 15,982 | 724,955 | 2,034,467 |
| GENERAL SERVICES FUND | 38,804,422 | 53,484 | 189,233 | 39,047,139 |
| FLEET SERVICES FUND | 31,193,217 | 108,061 | (577,111) | 30,724,167 |
| INSURANCE FUND | 38,733,582 | 131,318 | 295,483 | 39,160,383 |
| EMPLOYEE BENEFITS FUND | 222,796,558 | 11,441,636 | - | 234,238,194 |
| TIDELANDS FUNDS | 133,556,857 | (1,776,921) | 60,733,543 | 192,513,479 |
| TIDELAND OIL REVENUE FUND | 242,170,966 | (100,997) | - | 242,069,969 |
| RESERVE FOR SUBSIDENCE | - | - | - | - |
| GAS FUND | 103,502,278 | 24,779 | 12,564,139 | 116,091,196 |
| GAS PREPAY FUND | 20,871,645 | (855,628) | - | 20,016,018 |
| AIRPORT FUND | 39,960,231 | 49,022 | 64,837,870 | 104,847,123 |
| REFUSE/RECYCLING FUND | 42,088,611 | 1,602,091 | 122,138 | 43,812,840 |
| SERRF FUND | 46,714,501 | 1,280,788 | - | 47,995,289 |
| SERRF JPA FUND | 11,369,810 | - | - | 11,369,810 |
| TOWING FUND | 8,349,681 | (53,764) | - | 8,295,917 |
| PARKING AUTHORITY FUND | - | - | - | - |
| HOUSING AUTHORITY FUND | 73,226,330 | 41,804 | 658,353 | 73,926,487 |
| REDEVELOPMENT FUND | 170,171,437 | 806,440 | 188,160,508 | 359,138,385 |
| CUPA FUND | 1,261,418 | (19,440) | - | 1,241,978 |
| TOTAL | 1,807,429,676 | 20,828,706 | 652,517,124 | 2,480,775,505 |

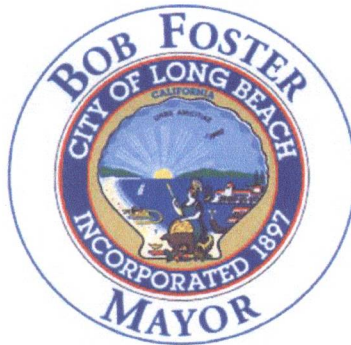
*Carryover of multi-year grants and CIP funds.

FISCAL YEAR 2012 APPROPRIATIONS ORDINANCE BY DEPARTMENT

| <u>DEPARTMENT</u> | <u>FY 12 PROPOSED EXPENDITURES</u> | <u>CHANGES</u> | <u>FY 11 ESTIMATED CARRYOVER*</u> | <u>FY 12 APPROPRIATION</u> |
|------------------------------|--|-------------------|---------------------------------------|--------------------------------|
| MAYOR AND COUNCIL | 4,839,203 | (20,229) | - | 4,818,974 |
| CITY ATTORNEY | 8,585,107 | (2,747) | - | 8,582,360 |
| CITY AUDITOR | 2,638,210 | (9,826) | - | 2,628,384 |
| CITY CLERK | 4,982,164 | (12,693) | - | 4,969,471 |
| CITY MANAGER | 8,536,494 | 18,542,066 | (196) | 27,078,364 |
| CITY PROSECUTOR | 4,824,978 | 19,987 | 91,946 | 4,936,911 |
| CIVIL SERVICE | 2,160,085 | (19,310) | - | 2,140,775 |
| COMMUNITY DEVELOPMENT | - | - | 92,742,471 | 92,742,471 |
| AIRPORT | 39,376,533 | 22,750 | 64,717,064 | 104,116,347 |
| DEVELOPMENT SERVICES | 231,075,221 | (4,246,249) | 289,718,208 | 516,547,180 |
| FINANCIAL MANAGEMENT** | 380,252,817 | 21,147,305 | 19,266,064 | 420,666,186 |
| FIRE | 94,356,153 | (308,938) | 1,980,096 | 96,027,311 |
| HEALTH AND HUMAN SERVICES | 115,886,603 | (3,896,233) | 28,111,036 | 140,101,407 |
| HUMAN RESOURCES | 22,094,035 | 1,732,604 | - | 23,826,639 |
| LIBRARY SERVICES | 13,002,844 | (32,787) | - | 12,970,057 |
| LONG BEACH GAS AND OIL | 401,289,908 | 2,589,775 | 12,564,139 | 416,443,821 |
| PARKS, RECREATION AND MARINE | 59,966,893 | (8,760,104) | 38,555,096 | 89,761,884 |
| POLICE | 200,238,669 | (964,643) | 6,535,800 | 205,809,827 |
| PUBLIC WORKS | 179,347,493 | (4,743,302) | 98,069,200 | 272,673,391 |
| TECHNOLOGY SERVICES | 37,073,759 | 5,245 | 166,200 | 37,245,203 |
| TOTAL | 1,810,527,168 | 21,042,672 | 652,517,124 | 2,484,086,963 |

*Carryover of multi-year grants and CIP funds.

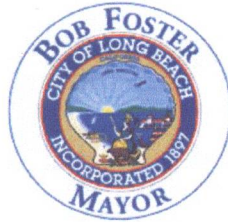
**Department of Financial Management includes internal service charges that are contained in the resolutions of the Water, Sewer and Harbor funds for accounting, budgeting and treasury functions, and other citywide activities such as debt service.



Mayor's Budget Recommendations

Fiscal Year 2012

Presented August 2, 2011



August 2, 2011

Members of the City Council:

Pursuant to the Long Beach City Charter, I am transmitting the Mayor's Recommendations on the City Manager's structurally balanced budget for Fiscal Year 2012 (FY12).

I would like to thank City staff for their hard work in developing a balanced budget under difficult circumstances and again providing direction to best perform our core functions as a government.

While Long Beach maintains a high credit rating, confirmed recently as AA by Fitch, the 2008 financial collapse built increasing costs into our pension obligations and the State's short-sighted decision to eliminate local redevelopment's investment power and job creation functions will strain the General Fund going forward. As if all that weren't enough, in the days that followed the passage of the State budget, it became apparent that an additional takeaway by the State to cover its debts meant Long Beach had to slash \$1.7 million more from the General Fund for FY12, increasing the shortfall we needed solutions for to \$20.3 million.

These past two years, we have been waging a war of attrition, with each ensuing year requiring additional cuts to service levels. We cannot afford to continue on this path. We must find a way to reach structural balance and further invest in our infrastructure.

This year presented the most challenging fiscal and budgetary environment in my time as Mayor but has, in recent days, also provided the single most significant step to our long-term fiscal health in the form of a tentative agreement with the Police Officers' Association that cuts pension costs and, if it were to be mirrored by our other employee groups, eliminates structural deficits by the end of FY 13 based off current projections.

With those developments as context, I will focus on three issues in this year's Budget Message that will be core issues driving costs and affecting decisions on revenue allocation for the foreseeable future.

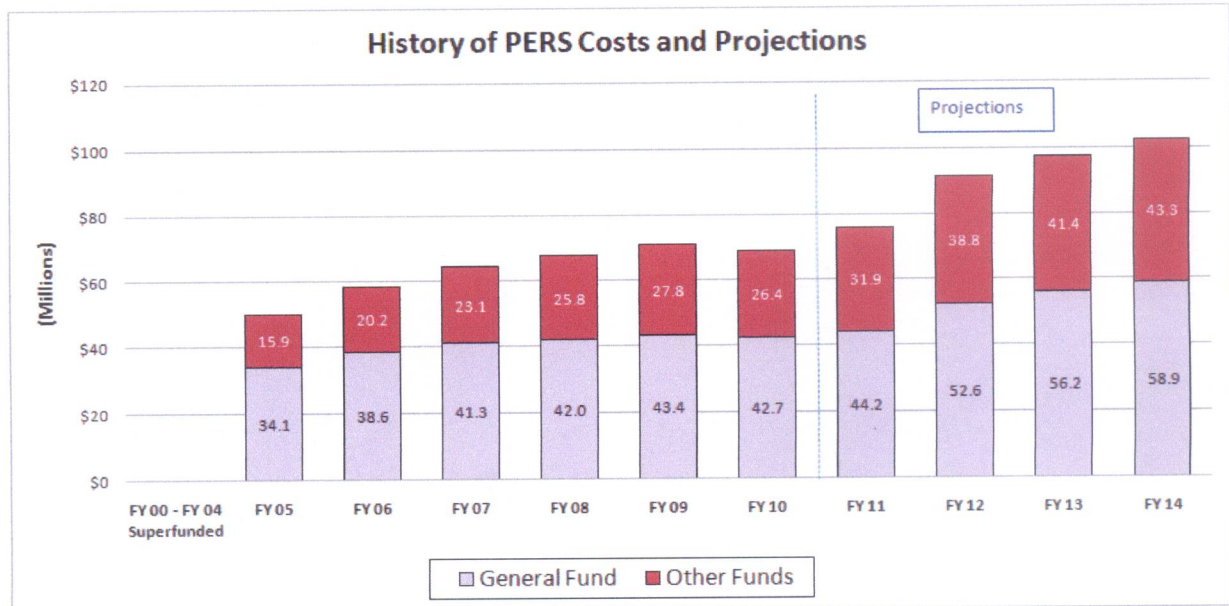
1) Escalating Pension Costs

In this war of attrition I mentioned earlier, there are two interconnected, driving forces. Simply put, pension benefits are too costly and not sustainable. This is not to point fingers at any of our city workers or the quality of job they do – it is just plain math. And I cannot say it enough: sustainable pension benefits are in everyone's best interests.

I have been outspoken on this issue and believe that bringing pensions in line with fiscal reality is essential for our future and imperative to achieve honest structural balance.

It is important to remember that these benefits were increased when the City appeared to have a windfall of revenue from an over-funded, or as some described "super funded", account at PERS.

In the early part of the last decade, the City made no payment for several years into the PERS system. Hindsight would have urged us to build a reserve or make a payment in case circumstances changed. We did neither. Not only did the City increase pension benefits going forward but also made the increases retroactive to be inclusive of all the years employees had worked. The spending of the "windfall" is the single largest cause of our present difficulties. Current projections show our pension costs doubling between FY05 and FY 14 -- up to \$102 million annually. Even with outsized market returns of the past 18 months, the future holds more cost increases, casting a decidedly dark cloud for years to come.



2) Addition to the current price of oil

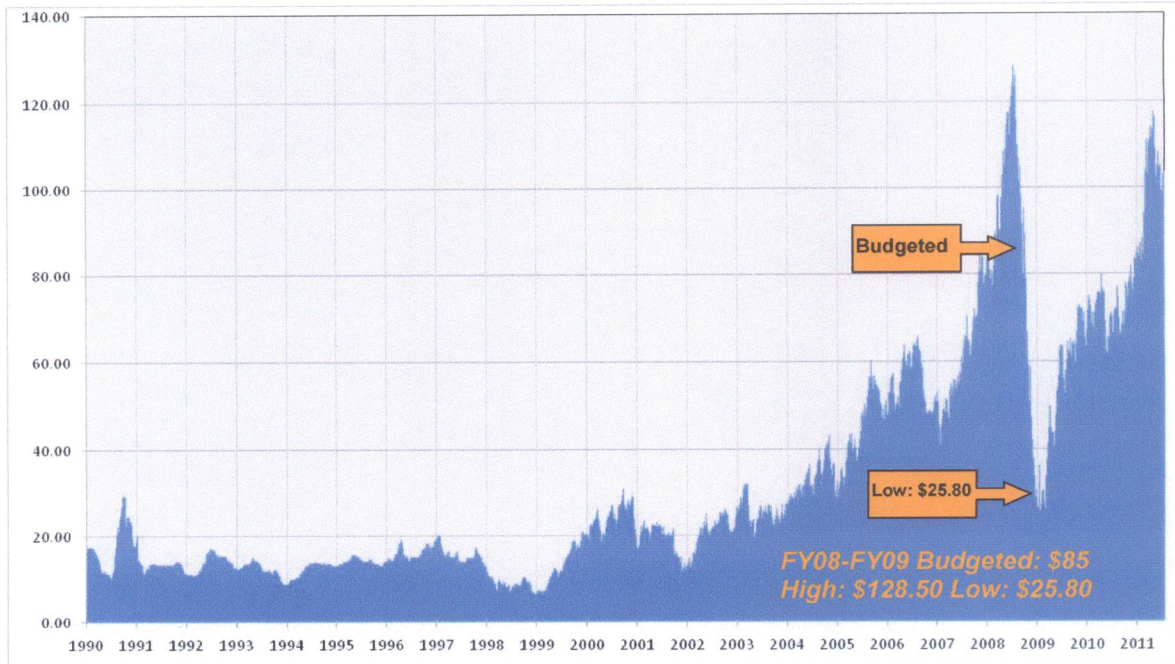
Oil operations continue to be a source of revenue for the City. The City's Department of Gas & Oil has administered citywide oil operations since the beginning of the century in two broad geographical areas: Uplands and Tidelands. Upland oil field funds may be used in the General Fund; Tidelands oil revenues, including those from the Harbor district, may only be used in the state-designated Tidelands area for specific purpose under California law.

"Long Beach crude" has, in relative terms, proven expensive to extract. Thus, in very broad terms, when gross oil proceeds drop, the production levels among Long Beach's

wells are also likely to fall. Additionally, as with any commodity, fluctuations are dependent on innumerable global factors that we in the City have very little control over.

Simply put, oil is a volatile commodity. The chart below demonstrates the historical price, by month, of Long Beach crude:

Price of Oil from 1990 to Present



- Long Beach Department of Gas & Oil

One only need review the history of oil prices and its rapid fluctuations to know that it cannot be counted upon as stable revenue.

Last year, oil was budgeted at \$45 dollars a barrel. In light of a higher pricing environment, the budget reflects base price growth and is budgeted at \$55 a barrel for next year.

I believe it is important to issue a strong warning on this point: we should not go further. We have no protection against downside risk.

Only two years ago, oil hit \$128.50 per barrel and then declined to \$25.80. Fiscal discipline requires that we carefully use this revenue. I will do all in my power to make sure we approach this issue prudently, with an eye on not making the same mistake we made in the early part of the last decade.

3) Strengthen Reserve Accounts

While the symptom of our distress is visible in the escalating costs for pension benefits, the cause is the lack of discipline on the part of the City in building a prudent reserve, which preserved windfall funds or utilized them for one-time expenditures. Instead, the City at that time built up ongoing expenses using revenues that could not be relied upon, increased the budget, created future liabilities for others and placed the City on the path of instability. None of this was out of bad intentions; a governmental body will tend to use the funds it has, ongoing or one-time, to provide more services or programs for its people. True fiscal discipline is required to prevent inappropriate spending from occurring.

If we are able to reform our employee pensions and put ourselves on the path to fiscal balance, we need to guard against history repeating itself. Today, because of high oil prices, we have a windfall of one-time revenue from Uplands oil perhaps reaching \$10 million.

This money will be a tempting target for those who want to once again increase our budget, delay cuts and spend these dollars on ongoing programs or benefits. There will be scores of reasons and worthwhile programs, which could benefit from this revenue; however, to do so will once again impair our future, cripple our ability to fix the city, and place a burden on future Councils and Mayors.

Sound fiscal planning is required to save the future from the excess of the present. The City Council has done a good job of using one-time revenues for one-time costs -- let's go a step further and invest in our future.

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