**BH-19**

CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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

September 9, 2008

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 2009 budget as listed in Attachment A of this letter. (Citywide)

DISCUSSION

On August 1, 2008, the City Manager's Proposed Budget for Fiscal Year 2009 (FY 09) was delivered by the Mayor to the City Council and community with recommended amendments for consideration. Subsequent workshops and hearings were set for August 5, August 12, August 19, August 26, September 2, September 4 and September 9, 2008 along with approximately three Budget Oversight Committee (BOC) meetings and ten community meetings at which the FY 09 Proposed Budget was discussed. We are pleased to report that through the scheduled workshops, hearings, BOC and community meetings, presentations have been made by multiple City departments resulting in 23 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 09 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 09 budget and authorizes expenditures in conformance with the adopted budget. To become effective October 1, 2008, 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 09 Capital Improvement Program; acknowledgment of the updated Financial Strategic Plan; the Mayor's Recommendations; and the Budget Oversight Committee's Recommendations to the FY 09 Proposed Budget.

This letter was reviewed by Assistant City Attorney Heather A. Mahood on August 21, 2008.

TIMING CONSIDERATIONS

In accordance with the Long Beach City Charter, the FY 09 budget must be adopted by September 15, 2008, 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 09 Proposed Budget shall be deemed the budget for the 2009 fiscal year. The Mayor then has five calendar days from City Council adoption of the budget to use a line-item veto to reduce or eliminate expenditures. The City Council would then have until September 30, 2008, to override any line-item veto 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 09 budget for all departments and funds is \$3,468,910,455, which comprises \$3,096,273,192 in new appropriation and \$372,637,263 in estimated carry-over from FY 08 for multi-year grants and projects.

The Appropriations Ordinance, included as Attachment A-17 to this letter, totals \$2,343,846,799 for all funds except Harbor, Water and Sewer, and \$2,348,005,027 for all departments except Harbor and Water. The \$4,158,228 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 Appropriation 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 \$1,125,063,656. The budget for the Harbor Department was adopted by the Board of Harbor Commissioners by minute order on June 16, 2008. The budget for the Water Department was adopted by the Board of Water Commissioners by resolution on July 10, 2008.

The City Council is also requested to bring the Municipal Code into uniformity with the FY 09 budget by amending Municipal Code (section 15.20.060) establishing the maintenance for all sewer laterals to be the sole responsibility of the property owner. The Memorandum of Understanding with the Water Department to provide sewer lateral repair services related to tree root damage has been eliminated. This action will bring Long Beach's sewer lateral policy in-line with other local jurisdictions, including the City of Los Angeles.

The recommendations in this letter include various fee adjustments, as highlighted in the FY 09 Proposed Budget book, and are included in the attached Master Fee Resolution. The fee changes are necessary for full cost recovery and are summarized in Attachment A-6, Exhibit A to this letter.

Other requested City Council actions include approval of the FY 09 One-Year Capital Improvement Program (CIP) budget, which is contained in the Appropriations Ordinance. The Planning Commission, at its meeting of August 15, 2008, approved the CIP for FY 09 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.

Further, 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, while the budget of the HDC is included in the budget of the Community Development Department.

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 41.05 percent of the 2008-2009 Appropriations Limit and, therefore, does not exceed the Limit. This calculation is reviewed by the City Auditor for conformance to the law.

SUGGESTED ACTON:

Approve recommendation.

Respectfully submitted,



LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:



PATRICK H. WEST
CITY MANAGER

List of Requested Fiscal Year 2008 Budget Adoption Actions

1. Adopt the Resolution approving the FY 09 budget for the Long Beach Harbor Department as adopted by the Board of Harbor Commissioners on June 16, 2008 (A-1).
2. Declare an emergency to exist (A-2).
3. Declare the Ordinance approving the Resolution establishing the rates and charges for water and sewer service to all customers, as adopted by the Board of Water Commissioners on July 24, 2008, 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 09 budget of the Long Beach Water Department as adopted by the Board of Water Commissioners on July 10, 2008 (A-4).
5. Declare the Ordinance to amend the Long Beach Municipal Code by amending section 15.20.060 relating to maintenance of sewers, read the first time and laid over to the next regular City Council meeting for final reading (A-5).
6. Adopt the Resolution establishing a master fee and charges schedule for specified city services for the Departments of Airport, City Clerk, City Prosecutor, Community Development – Code Enforcement, Development Services, Financial Management, Fire, Gas & Oil, Health and Human Services, Library Services, Parks, Recreation and Marine, Police, and Public Works. (A-6).
7. Approve the FY 09 One-Year Capital Improvement Program (A-7).
8. 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 \$44,558 for North Long Beach (A-8).
9. Adopt a motion approving the budget for the Long Beach Housing Development Company in the amount of \$30,424,612, which is included in the budget of the Department of Community Development (A-9).
10. Adopt a motion approving the transfer of \$16,059,464 from the Harbor Revenue Fund to the Tidelands Operating Fund (A-10).
11. Adopt the Resolution adopting an appropriations limit (Gann) for FY 09 pursuant to Article XIII(B) of the California Constitution (A-11).
12. Adopt the Mayor's proposed funding recommendations, as amended, to the FY 09 Proposed Budget (A-12).
13. Adopt the Budget Oversight Committee's proposed funding recommendations, as amended, to the FY 09 Proposed Budget (A-13).
14. Acknowledge the updated Financial Strategic Plan (A-14).
15. Adopt a motion amending the proposed budget (A-15).
16. Declare an emergency to exist (A-16).
17. Declare the Appropriations Ordinance for FY 09, 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-17).

FISCAL YEAR 2009 APPROPRIATIONS ORDINANCE BY FUND

<u>FUND</u>	<u>FY 09 PROPOSED EXPENDITURES</u>	<u>CHANGES</u>	<u>FY 08 ESTIMATED CARRYOVER*</u>	<u>FY 09 APPROPRIATION</u>
GENERAL FUND	404,223,243	(329,134)	-	403,894,110
GENERAL GRANTS FUND	6,657,583	-	10,880,124	17,537,707
POLICE & FIRE PUBLIC SAFETY OIL PROD ACT FUND	4,756,444	-	-	4,756,444
HEALTH FUND	44,706,112	212,069	36,281,335	81,199,515
PARKING & BUSINESS AREA IMPROVEMENT FUND	7,031,088	-	-	7,031,088
SPECIAL ADVERTISING & PROMOTION FUND	6,930,787	7,502	-	6,938,289
UPLAND OIL FUND	28,650,709	-	-	28,650,709
HOUSING DEVELOPMENT FUND	26,684,889	19,826	66,657,962	93,362,677
BELMONT SHORE PARKING METER FUND	669,532	-	-	669,532
DEVELOPMENT SERVICES FUND	13,917,848	(78,020)	-	13,839,827
BUSINESS ASSISTANCE FUND	1,473,381	(258,849)	(48,155)	1,166,377
COMMUNITY DEVELOPMENT GRANTS FUND	26,598,907	60,751	32,256,190	58,915,849
PARK DEVELOPMENT FUND	1,056,174	1,479	-	1,057,653
GASOLINE TAX STREET IMPROVEMENT FUND	17,354,032	-	16,292,095	33,646,127
TRANSPORTATION FUND	16,920,015	2,659	17,318,712	34,241,387
CAPITAL PROJECTS FUND	10,790,141	-	53,652,719	64,442,860
CIVIC CENTER FUND	1,635,040	9,546	2,962,504	4,607,090
GENERAL SERVICES FUND	36,842,828	33,973	2,138,513	39,015,315
FLEET SERVICES FUND	36,311,834	27,523	359,703	36,699,059
INSURANCE FUND	36,290,954	80,631	-	36,371,584
EMPLOYEE BENEFITS FUND	226,004,478	1,093,568	-	227,098,045
TIDELANDS FUNDS	131,033,622	3,640,255	19,850,396	154,524,273
TIDELAND OIL REVENUE FUND	363,131,614	57,348	-	363,188,961
RESERVE FOR SUBSIDENCE	-	-	-	-
GAS FUND	144,771,416	63,086	3,736,684	148,571,186
AIRPORT FUND	34,789,571	149,081	48,127,643	83,046,295
REFUSE/RECYCLING FUND	49,529,322	22,713	(127,537)	49,424,498
SERRF FUND	53,701,873	1,511,097	-	55,212,970
SERRF JPA FUND	11,394,998	-	-	11,394,998
TOWING FUND	9,821,496	4,120	-	9,825,615
PARKING AUTHORITY FUND	-	-	-	-
HOUSING AUTHORITY FUND	67,445,005	12,613	792,013	68,249,631
REDEVELOPMENT FUND	142,414,052	51,934	61,506,361	203,972,347
CUPA FUND	1,289,158	5,621	-	1,294,779
TOTAL	1,964,808,145	6,401,391	372,637,263	2,343,846,799

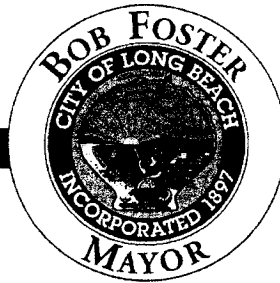
* Carryover of multi-year grants and CIP funds.

FISCAL YEAR 2009 APPROPRIATIONS ORDINANCE BY DEPARTMENT

<u>DEPARTMENT</u>	<u>FY 09 PROPOSED EXPENDITURES</u>	<u>CHANGES</u>	<u>FY 08 ESTIMATED CARRYOVER*</u>	<u>FY 09 APPROPRIATION</u>
MAYOR AND COUNCIL	\$ 5,215,817	\$ (151,354)	\$ -	\$ 5,064,463
CITY ATTORNEY	9,708,745	0	-	9,708,745
CITY AUDITOR	2,682,333	137,717	-	2,820,050
CITY CLERK	3,911,718	-57,978	-	3,853,740
CITY MANAGER	8,087,496	33,935	-	8,121,430
CITY PROSECUTOR	5,492,110	0	(16,989)	5,475,121
CIVIL SERVICE	2,224,506	0	-	2,224,505
AIRPORT	27,384,959	149,081	3,384,161	30,918,201
COMMUNITY DEVELOPMENT	145,578,033	5,337,385	98,559,410	249,474,828
DEVELOPMENT SERVICES	160,342,492	83,912	63,039,954	223,466,358
FINANCIAL MANAGEMENT**	367,300,622	539,998	(1,752,019)	366,088,602
FIRE	93,793,784	113,754	3,174,090	97,081,628
HEALTH AND HUMAN SERVICES	50,832,388	242,579	38,853,555	89,928,522
HUMAN RESOURCES	8,123,010	38,189	-	8,161,199
LIBRARY SERVICES	13,271,115	30,592	-	13,301,707
LONG BEACH GAS AND OIL	579,572,123	1,631,531	3,736,684	584,940,339
PARKS, RECREATION AND MARINE	57,997,862	193,840	19,437,940	77,629,642
POLICE	207,431,124	-465,867	5,098,889	212,064,147
PUBLIC WORKS	184,574,235	-1,876,419	137,183,074	319,880,890
TECHNOLOGY SERVICES	35,441,901	420,497	1,938,513	37,800,911
TOTAL	\$ 1,968,966,373	\$ 6,401,391	\$ 372,637,263	\$ 2,348,005,027

* 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.



**Office of Mayor
Bob Foster**

**Mayor's Budget
Recommendations**

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Fiscal Year 2009

presented August 1, 2008



August 1, 2008

Members of the City Council:

Pursuant to the City Charter, I am pleased to transmit the Mayor's recommendations to the City Manager's structurally balanced FY 2009 budget.

This budget recognizes the fiscal realities we face. It emphasizes core services, eliminates duplicative functions and provides managerial efficiencies. Most importantly, it challenges the status quo and takes a fresh look at how our City provides its core services.

For example, despite a smaller workforce and stagnant funding levels, graffiti removal, pothole repair and sidewalk repair are now completed in record time. The City continues to fund after school programs for 177,000 students at 12 school sites and just last week, re-opened the Youth Opportunity Center for the first time in three years.

The Manager's recommendation to shutter the Main Library will allow us to enhance services at all 11 neighborhood branches to 7 days a week and expand hours of operation to levels greater than before the 2004 service cuts. The computer and homework center services of Main will be temporarily re-located in Downtown to meet the most pressing needs of the community. In sum, this measure saves \$1.86 million annually by not sinking overhead operations costs into an outdated and broken facility - and removes a \$10 million anticipated burden from the general fund to replace a leaking roof and damaged plumbing systems.

While FY 09 undoubtedly presents its share of fiscal challenges, I am unabashedly bullish on the future for Long Beach. The City continues to fully fund its Charter-mandated reserve account. Our enterprise funds, those restricted funds that make up nearly 87% of the City's \$3.1 billion budget, are performing well despite national economic trends. Our City's \$404 million general fund, which bears the burden of funding public safety and daily operations of the City, still strains under those demands. Since 2004, this City has cut nearly \$90 million from its general fund and eliminated 520 positions, nearly 10% of the workforce.

The City has begun addressing many of the challenges I outlined in the FY 08 budget message, collectively answering the question we contemplated last year: are we willing to invest in the things we need to make this a first-class city?

The Council took the first step in those investments earlier this year, approving employee contracts that are stable and bring our employee to the average salary levels of other

cities and make great strides in retaining our skilled workforce. I want to commend IAM for stepping up to the plate in this year's negotiations with a creative and forward looking pension framework that looks to roll back pension rates for new employees and "gainsharing" agreements that incentivize employees to find new ways to cut costs and save taxpayer dollars.

The next step in this investment plan comes in November, when the voters of Long Beach will have the opportunity to re-build our City's aging infrastructure and invest \$571 million in our streets, roads, public safety facilities and civic structures.

While the Manager's budget this year continues the policy of spending \$3 million for sidewalks, that amount is woefully inadequate to meet our needs. In the context of the City's general fund budget, our demonstrated need to catch up on our streets, sidewalks and public safety facilities is an additional \$58 million annually over the next 10 years. To put it into perspective, that would mean eliminating the entire Department of Parks and Recreation, all of our libraries and library services, and effectively eliminating the Public Works. I don't believe that is a vision for the Long Beach of the future that is acceptable.

Should the voters of Long Beach agree to embark on such a rebuilding plan, the City must make its top priority never again to fall behind on our physical infrastructure. I will continue to recommend the Council adopt strict fiscal policies on the use of one-time funds to make sure we are adequately funding on-going maintenance.

Further, I applaud the creation of a budget stabilization fund that treats oil revenues in excess of \$85 per barrel as one-time revenues. We must resist the temptation to institutionalize wild speculation into our baseline budget assumptions.

In last year's message, the City Manager spoke about the need to fulfill our commitment to the community to invest in the Long Beach of the future. I believe this year's budget does just that. I look forward to working with the Council over the next several weeks as they consider these proposals in greater detail.

This year's budget process began in October of 2007. I want to thank Council Budget Oversight Chair DeLong, City Manager West and Assistant Manager Frick, the Financial Management staff and all the Department Heads for your willingness to re-examine how we do business with an eye to becoming the Long Beach we all want to be.

Additional Recommendations

1.) Elected Official 10% budget reductions

The elected officials budgets have largely been immune to the reductions imposed on the City Manager departments over the past 4 years. While service demands increase, I believe it is appropriate to request each elected department to do their part and cut their budgets by 10% - consistent with the FY 09 directive to the City Manager departments.

Citywide, this will account for \$2.5 million in savings this fiscal year, avoiding cuts in other critical service areas.

2.) Convention Center Expansion Debt Relief

Request the Harbor Department begin the process to forgive the City's \$27 million debt from the Convention Center expansion.

This will result in a net gain to the general fund of \$ 4.0 million for FY '09.

3.) Continue to Maximize City partnerships

Our City partners continue to embrace the concept that Long Beach is "One City," finding common financial interest and uniting around a single mission to make Long Beach the best it can be.

Long Beach Transit has agreed to pay full costs for police services and I will ask them to provide "beach bus" service in the coming year. The Redevelopment Agency continues to play a large part in building the Long Beach of tomorrow and will again this year increase its support of our core missions, by increasing graffiti removal spending.

In addition to launching the most ambitious clean air program in the world, the Harbor Commission and staff continue to look for opportunities to partner with the community on such programs as midnight basketball and portions of the Municipal Band season.

Further, I will recommend that the Water Department takes a leadership role in funding the repair of our leaky irrigation lines to further promote our shared goal of increasing water conservation.

Additionally, there has been significant progress made in working with the Long Beach Unified School District and Long Beach City College to resolve full cost recovery.

4.) Infrastructure Maintenance Fund / Neighborhood Streets and Roads Account

I am again recommending the Council adopt the fiscal policy of using one-time revenue to pay for infrastructure and again ask Management to create a dedicated special fund to handle on-going maintenance costs so, should we be able to "catch up" on our needs through the passage of the Infrastructure Bond, the City will not fall so far behind again.

5.) Insurance Fund

Over the past few years, the City has undertaken significant reforms in managing its workers' compensation and other general liabilities,

garnering millions of dollars in either direct savings or cost avoidance. The Workers' Compensation optimization was a collective effort between the City Manager's Office, Human Resources and the City Attorney's Office, along with every department focusing more proactively on workplace and work practice safety, early reporting of injuries and more professional medical care for our injured employees. However, as we have seen recent large legal settlements or judgments against the City, and workers' compensation costs beginning to trend upwards again, the City's ability to support excessive costs in this area has been strained. Our ability to keep these costs under control is directly related to our ability to keep our General Fund balanced, as the Insurance Fund that supports these costs is funded approximately 60% by the General Fund. In addition, beginning in FY 09, \$1 million of General Fund monies are budgeted each year to rebuild the Insurance Fund balance that has been depleted by judgments against the City.

Therefore, I recommend that in FY 09, all City departments redouble their efforts on workers' compensation management. Also, all departments must engage in proactive and accountable work place and work practice safety efforts, especially in our higher risk public safety departments, to improve employee safety and decrease the number of avoidable accidents and claims against the City. Through these efforts, I believe that beginning in FY 10 the General Fund could save \$1 million per year by the elimination of the additional transfer to the Insurance Fund.

6.) Prop. H

Prop. H revenues continue to fund 14 police officers and 12 firefighters to staff a new ladder truck for the Fire Department. FY 09 will be the first year where the community will see the full result of these funds at work in the community, as officers and firefighters complete their academy training and are deployed into full time service.

7.) Police Overtime and Academy Class

For the first time in 6 years, the budget fully funds the Police Department's request for overtime resources, ending the need to maintain vacancies to cover costs. While our work here is not yet done, this was a significant managerial and budgetary challenge over the past several months and a great deal of credit goes to Chief Batts and his command staff for their efforts. Continued efforts to closely manage overtime expenses will still be required to maintain a balanced budget.

In this year's Manager's budget, an additional 6 sworn officers will be re-directed into patrol by the elimination of PAL. Over the past two years, through hiring and administrative direction, 86 more officers will be on the streets than 2 years ago.

Further, I am recommending that LBPD maximize the October academy and "super-sizes" its number of recruits from 34 to 50.

8.) Prepare for reductions in State funding

While it is unclear when the State Legislature will adopt its FY 09 State Budget, it is becoming increasingly clear they will take money from local governments.

The long-anticipated \$6 million Sempra settlement is expected to materialize in early FY 09. I am recommending that the Council does not appropriate these funds until later in the fiscal year to fully protect the General Fund against borrowing by the State.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bob Foster". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Mayor Bob Foster