



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

R-46

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

December 13, 2005

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file City Manager's report on Fiscal Year 2005 excess year-end revenue.
(Citywide)

DISCUSSION

On October 18, 2005, Councilmember O'Donnell requested the City Manager to report on any excess General Fund revenue remaining from Fiscal Year 2005 (FY 05), which ended on September 30, 2005. The Councilmember suggested that any available resources be considered to restore FY 06 Library cuts, specifically those related to operating hours and materials.

Financial Management is in the midst of preparing the audited FY 05 financial statements, but has completed preparation of unaudited statements. The General Fund unaudited ending fund balance is \$2.15 million more than previously projected department estimates-to-close, though revised revenue and expenditure estimates for FY 06 indicate that these one-time resources will be required to maintain a balanced budget during FY 06. The major sources for this variation, which represents only five-tenths of one percent (0.57 percent) difference from earlier year-end projections, include: approximately \$750,000 in one-time, Citywide department salary savings; and, \$1.4 million in net revenue fluctuations. The higher than anticipated revenue is primarily from parking citations, real property transfer tax, reimbursements for Police Department contract services, and a Vehicle License Fee payment from the State.

The higher-than-estimated year-end revenue will be used to create a level of stability in the General Fund, due to several known changes in operating conditions for FY 06 and given that there is still over \$10 million of unsolved structural deficit to be addressed in FY 07. In particular, the City recently received notice from the State Department of Finance that \$1,037,000 will be withheld from the City's expected FY 06 Property Tax In-lieu of Sales Tax "Triple-Flip" payment due to a State miscalculation in FY 05. In addition, while oil prices remain high and oil profits for the City will be more than in past years, increased costs for fuel will outstrip the oil profit.

Another vital component of these discussions should be centered on the continuing negotiations with labor unions, the additional desire to bolster the investment in street and sidewalk repairs that are a high priority to the community, and the fact that the City's Operating Reserve sits at only \$600,000 compared to a General Fund operating budget of

\$362 million (less than 2/10ths of 1 percent). In addition, the General Fund has over 250 categories of revenue, many of which the City has no direct control over how much or how little is generated, and often minimal information is available prior to actual receipt of the revenue. This is a reality for most local governments, and the unpredictability of revenue streams coupled with small operating reserves should influence the discussions surrounding spending "excess" revenue.

All of these elements considered, I recommend that approximately \$500,000 of the one-time revenue received during FY 05 be used to support additional one-time sidewalk repair work during FY 06 through a 1st Quarter Budget Adjustment. Any program restorations under consideration should be deferred until after the structural deficit is solved. If any additional unallocated recurring resources do become available, it will be recommended that they be allocated toward eliminating the structural deficit and then to our current public safety needs, in line with the City Council's stated priorities.

To this end, at the beginning of FY 06, the General Fund received \$1.3 million in additional unbudgeted revenue from the repayment of outstanding loans from the Central Project Area to the General Fund. The City Council directed \$905,000 of this structural revenue be used to support police services in the downtown entertainment district. At that time I recommended, and still do, that the remainder of this recurring revenue be used to reduce the structural deficit.

For more detailed information on FY 05 year-end budget performance, please see the FY 05 Year-end Performance Report.

TIMING CONSIDERATIONS

City Council action on this matter is not time critical.

FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


MICHAEL KILLEBREW
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:


GERALD R. MILLER
CITY MANAGER