



Legislation Details (With Text)

File #: 10-0951 **Version:** 1 **Name:** FM - FY10 3rd Qtr Budget Performance Rpt
Type: Agenda Item **Status:** Approved
File created: 8/19/2010 **In control:** City Council
On agenda: 9/7/2010 **Final action:** 9/7/2010
Title: Recommendation to receive and file the Fiscal Year 2010 Third Quarter Budget Performance Report. (Citywide)
Sponsors: Financial Management
Indexes: Budget, Report
Code sections:
Attachments: 1. 090710-R-26sr&att.pdf

Date	Ver.	Action By	Action	Result
9/7/2010	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2010 Third Quarter Budget Performance Report. (Citywide)

This report provides an update on the City’s Fiscal Year 2010 (FY 10) budget and operational performance through June 30, 2010. 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

As of June 30, 2010, the City’s adjusted expenditure budget for all funds was \$3.3 billion. Year-to-date revenue receipts for all funds were at \$1.9 billion, or 67.1 percent of the \$2.8 billion in projected revenue. With three-quarters of the fiscal year complete, it is clear that revenue trends, especially in the General Fund, continue to lag significantly below the budgeted levels.

FY 10 General Fund Revenue

Given the receipt of large upfront, installment payments early in the fiscal year (e.g. property taxes), year-to-date General Fund revenue is at \$306 million, or approximately 79.4 percent of total budget, with 75 percent of the fiscal year complete. However, as has been reported previously, it is estimated that Property Tax, Sales and Use Tax, Transient Occupancy Tax, Parking Citations, Interest-Pooled Cash, Gas UUT, Gas Pipeline Franchise Fee, and other economically sensitive revenues will come in below budget by approximately \$12 million. The increase to the Upland Oil transfer to reflect the year-to-date price of oil of \$70/bbl versus the budgeted price of \$40/bbl, in addition to other revenue opportunities, will offset all but \$2 million of this shortfall. The remaining \$2 million will be addressed through reducing General Fund expenditures wherever possible and maximizing other funding sources to support eligible administrative and/or operating expenses.

The Department of Financial Management monitors revenue performance on a weekly basis and modifies forecasts based on evolving economic performance data. Current and projected revenue

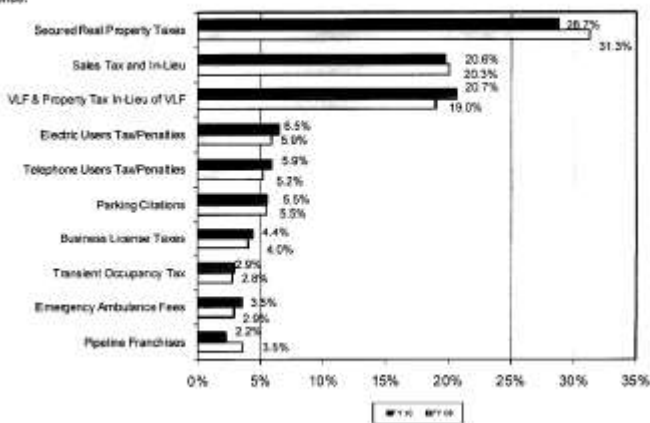
performance is based upon a variety of factors, and includes both structural and one-time revenues. It is important to note the risks inherent in projecting revenue, as the City has limited, if any, authority to affect certain revenue streams. The table below highlights performance through June 30, 2010 for selected General Fund revenues.

Revenue Source	FY 10 Estimates-to-Close	FY 10 YTD Revenue	YTD Rev as % of Estimates-to-Close	Notes
Secured Property Tax	\$57,432,258	\$55,447,280	96.5%	The City received its fourth secured property tax distribution in May. The total year-to-date payments are net of administrative costs charged to the City, which are being disputed. Estimates-to-close reflect a 3 percent year-over-year decline in the City's assessed valuation.
Sales and Use Tax, (includes the Triple Flip)	\$49,285,804	\$38,115,963	77.3%	The Sales and Use Tax payments were reduced by 25 percent for the State Triple Flip and are offset by the bi-annual Property Tax In-Lieu of Sales Tax payment from the State. It is estimated that year-end receipts will be 4 percent below budget due to high unemployment and low consumer spending.
Utility Users Tax	\$39,711,183	\$29,445,974	74.2%	Electric UUT collections are trending below budget. Natural gas UUT collections are less than anticipated due to lower consumption and gas prices than in the prior year. Telephone UUT collections are expected to come in slightly over budget. Water UUT collections are trending below budget due to the success of water conservation efforts.
Motor Vehicle In-Lieu Tax (VLF), combined with Property Tax in Lieu of VLF	\$40,585,173	\$39,923,253	98.4%	Payments for VLF are received monthly, while the Property Tax In-Lieu of VLF is received in January and May. Monthly VLF payments are trending lower than budget due to a decline in auto sales. In-Lieu VLF payments reached budgeted expectations.
Parking Citations	\$13,555,378	\$10,563,545	77.9%	Parking citation activity is currently trending below budget due to the increased 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.
Uplands Oil Transfer	\$13,437,022	\$10,077,425	75.0%	Budgeted FY 10 revenue is based on an oil price of \$40/bbl. The price of Wilmington Crude oil averaged \$70/barrel as of June. The ETC reflects this increase in oil price and a resultant increase in the Upland Oil Transfer to help the General Fund end the year in balance.
Business License Tax	\$11,550,000	\$8,548,887	74.0%	Business recovery efforts and the annual CPI adjustment should lead to year-end collections at budget.

Revenue Source	Estimates-to-Close	FY 10 YTD Revenue	YTD Rev as % of Estimates-to-Close	Notes
Emergency Ambulance Fees	\$9,591,490	\$6,786,466	70.8%	Implementation of a program within the Department of Financial Management to collect on unpaid Basic Life Support bills dating back five years has brought in an additional \$83K. This revenue stream will be closely monitored as it appears the year-end actuals may come in lower than the June ETC.
Transient Occupancy Tax	\$7,200,000	\$5,582,898	77.5%	Transient Occupancy Tax receipts are expected to come in below budget. The slowing economy has had a negative impact on Long Beach tourism, which has led to declines in hotel room occupancy rates in Long Beach hotels.
Pipeline Franchises	\$5,200,000	\$4,230,796	81.4%	Southern California Gas Pipeline Franchise fee revenue is trending below budget. The most recent quarterly payments demonstrated decreases in the volume and cost of gas over the same period last year.

A summary of the top 40 General Fund revenues is included in Attachment A. Exhibit 1 below shows the City's Top 10 General Fund revenue sources in FY 10 as a percentage of total year-to-date General Fund revenue.

Exhibit 1 shows the City's top 10 General Fund revenue sources in FY 10 as a percentage of total year-to-date General Fund revenue.



FY 10 Revenue by Department

As of June 30, 2010, General Fund departments generated \$306.1 million or 79.5 percent of budgeted revenues. Among the top revenue producers were the Financial Management Department with \$16.8 million, Public Works with \$16.3 million, Fire Department with \$10.2 million, Police Department with \$9.2 million and the Parks, Recreation & Marine Department with \$5.8 million.

It is important to note that revenue trends and receipts to date are trailing below their budgeted amounts. The Department of Financial Management is working closely with General Fund departments to maximize revenue as much as possible. Attachment B provides a more detailed breakdown of General Fund revenue performance and variances by department.

FY 10 General Fund Expenditures

The Adopted General Fund budget for FY 10 was \$384.3 million; however, due to the carry-over of prior year encumbrances, the adjusted General Fund budget as of June 30, 2010 became \$386.1 million. The year-to-date General Fund spending reached \$274.7 million, or 71.1 percent of the budget, with 75 percent of the year completed. As revenue performance continues to lag behind projected levels, it is imperative that Departments come in at or below their General Fund budgets to the greatest extent as possible. As such, City Manager departments have been asked to manage within 99.0 percent of their budgets to the greatest extent possible.

FY 10 General Fund Expenditures by Department

Although General Fund expenditures are generally on target, the following departments are worth noting:

- The Development Services Department is estimating to close \$380,123 over its General Fund adjusted budget allocation. This is largely due to delays with its parking automation program. The program is expected to be fully implemented by the end of the fiscal year.
- The Health and Human Services Department is estimating to close \$140,112 over its General Fund adjusted budget. This is due to the one-time expense incurred for the purchase of a new pet licensing, dispatching and kennel management program for Animal Services.
- The Police Department is at 72 percent of budget and is estimating to close 1 percent over

its adjusted budget allocation. The Department has made a concerted effort to limit overtime expenses and has currently spent 71 percent, or \$6.2 million of its overtime budget. The Department is currently estimating to end the year with \$8.6 million in actual overtime spending, which reflects a 5 percent savings from their budgeted amount.

Exhibit 2 above shows the City's Top 10 General Fund year-to-date expenditures by department. When combined, the Top 10 represent \$261.4 million, or 95 percent of the General Fund year-to-date expenditures. Both the Police and Fire Departments comprise 50 and 18 percent of the budget, respectively (68 percent combined). Attachment C provides a listing of all departments' year-to-date General Fund expenditure performance.

FY 10 Expenditure Performance - All Funds

While it is not expected that department or fund expenditures will occur equally throughout the fiscal year, measuring fund performance in quarterly intervals allows for review of the revenue and expenditure trends thus giving policymakers and administrators the ability to make the necessary changes to ensure a balanced budget.

The City's \$2.9 billion all funds adopted budget for FY 10 included \$349.7 million in carryover (multi-year grants and capital projects funds) and prior year encumbrances (goods and services ordered in FY 09, but received in FY 10). Throughout FY 10, the City Council has also approved budget amendments, which combined as of June 30, 2010, bring the Adjusted Budget to \$3.3 billion. Please see Attachment D for a breakdown of Citywide expenditures by fund. With 75 percent of the year complete, expenditure performance in all funds is at approximately 54 percent year-to-date.

Other Fund Highlights

Development Services Fund

The Development Services Fund continues to face challenges in generating sufficient revenue to adequately support its expenditures. However, due to mid-year budget reductions, the Fund is now projected to conclude FY 10 within balance.

The Development Services Department plans to take a series of structural changes that will allow the Fund to eliminate the estimated \$2 million structural deficit that has challenged the Fund for the last couple of years due to the real estate development crisis.

Proposition H

Proposition H funding is currently yielding about 27 cents per barrel of oil produced. Although the tax per barrel has slightly increased since the approval of Proposition H in 2007 due to annual CPI adjustments, actual oil production has declined. During the first quarter of FY 10 alone, oil production dropped to 3,258,260 barrels, the lowest in the last five years. In the second quarter of FY 10, oil production was at 3,215,619 barrels, a 1.48 percent decline from the previous quarter.

The City Manager and the Financial Management Department are currently working with both the Police and Fire Departments to address the projected revenue shortfall to end the current fiscal year with a balanced fund.

Special Advertising and Promotions (SAP) Fund

Annual SAP Fund expenditures exceed budgeted revenue due to the decline in Transient Occupancy Tax revenue and certain non-reimbursable community events such as the Summer Concert series, Municipal Band and parades. Based on a projected FY 10 shortfall of approximately \$1 million, mid-year spending restrictions were implemented to bring expenditures in line with the reduced level of funding.

Measures to improve financial sustainability and cost recovery in the SAP Fund are proposed for FY 11 to ensure a positive ending fund balance and ongoing structural balance in future years.

Conclusion

Federal, State and local governments are still suffering from the lasting impacts of the recession. As the current fiscal year progresses, we must not lose sight of the fact that this is a fragile and long economic recovery. The uncertainty and volatility of the national and international markets, coupled with continuing declines in the City's economically sensitive revenue streams, can easily undermine the City's balanced budget.

As the fiscal year comes to a close and we enter FY 11, it is important to note that current and future financial resources are limited. As such, we must continue to exercise considerable fiscal restraint. To assist in these efforts, and to help ensure a balanced budget by year end, the City Manager and Department of Financial Management are working closely with departments to reduce spending, and generate additional revenue whenever possible.

City Council action on this matter is not time critical.

There is no fiscal impact associated with the recommended action.

Approve recommendation.

LORI ANN FARRELL
DIRECTOR OF FINANCIAL MANAGEMENT/CFO

APPROVED:

PATRICK H. WEST
CITY MANAGER