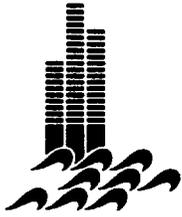


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CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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July 8, 2003

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Monthly Budget Performance Report – May 2003 Year-to-Date

DISCUSSION

This report provides an update on the City's Fiscal Year 2003 (FY 03) budget performance through the month of May 2003. The Mid-Year Budget Performance Report was submitted to Council on May 20, 2003 and provided extensive information and analysis on budget performance through March. The April (Attachment 1) and May Year-to-Date reports provide updates to the Mid-Year report. This report will again focus on the General Fund. Performance of other funds is also included where deemed significant.

Summary

Revenue and expenditure trends in the General Fund continue to be consistent with earlier trends with a few exceptions and it is expected that the \$11.7 million carryover target called for in the Three-Year Financial Strategic Plan will be generated through savings from the hiring freeze and expenditure controls, and one-time and ongoing revenue. Revenues are following prior period trends with the exception of Motor Vehicle in Lieu revenue that is received and passed through to the Health Fund, which is now estimated to come in as originally budgeted, and Transient Occupancy Tax (TOT), which saw a dip in April, but is also expected to achieve budget targets. By law, the Health Motor Vehicle in Lieu revenue must be passed through to the Health Fund and its trends have no effect on the General Fund. The General Fund receives its own allocation of Vehicle License Fee (VLF) and as it was previously reported the General Fund VLF is performing better than budget (see Attachment 2). May 2003 TOT receipts, reflective of April activity, dipped somewhat from May 2002; nonetheless, the TOT is expected to close the year at or over its budget. Additional costs due to increased workers' compensation and general liability charges were reflected in April. Overall, departments' expenditure estimates are relatively unchanged.

General Fund Revenues

May year-to-date General Fund revenue trends continue to follow prior period performance with a few exceptions. Staff still expects total General Fund revenues to exceed the adopted revenue budget. This performance includes various one-time revenues, such as sales taxes on port cranes, as detailed in previous reports. Historical and current year revenue for the top 40 revenues are summarized in Attachment 2.

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Since April, the most significant change is a revision in the forecast for the portion of the VLF revenue that is received by the General Fund but, under State law, must be passed through to the City's Health Fund. Based on May receipts, the Health Fund's VLF forecast has been revised upwards by \$890,000 and is back on track with budgeted levels. This simply puts that forecast on target with the adopted budget; it is not a windfall. Since this is a pass-through from the General Fund to the Health Fund, a corresponding expense is recorded simultaneous with receipt of these revenues, to reflect the transfer of these funds to the Health fund.

Transient Occupancy Taxes are paid by hotel operators to the City the month after the tax is collected by the hotels. Therefore, the City's May TOT revenue reflects April activity. Estimates to close for TOT revenue, based on May year-to-date receipts, have been reduced by \$120,000 from the previous monthly report. This decline is primarily due to the war and restricted travel policies many organizations implemented when the terror alert was Orange (high condition) or Red (severe condition). April has traditionally been a strong month due to the Grand Prix. June and July receipts (for May and June activity) will validate whether TOT is suffering a one-time downturn or exhibiting a downward trend. Nonetheless, while April occupancy (Table 1) and room rates (Table 2) have declined compared to last year, current year-to-date revenues exceed budget expectations due to the strength of the first half of the year.

Table 1 Long Beach Hotel Occupancy Rates

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Avg.
FY 2003	71.9%	67.0%	52.6%	71.4%	77.1%	70.1%	64.8%	67.8%
FY 2002	67.1%	58.8%	47.4%	66.8%	69.1%	71.9%	73.2%	64.9%
Variance	4.8%	8.2%	5.2%	4.6%	8.0%	-1.8%	-8.4%	2.9%
FY 2001	75.0%	72.5%	52.0%	67.7%	81.5%	79.8%	72.7%	71.6%

Table 2 Long Beach Hotel Average Daily Room Rates

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Avg.
FY 2003	\$103.28	\$102.53	\$86.45	\$107.97	\$109.20	\$110.39	\$126.07	\$106.56
FY 2002	\$104.57	\$100.08	\$86.53	\$105.47	\$105.10	\$108.90	\$128.61	\$105.61
Variance	-\$1.29	\$2.45	-\$0.08	\$2.50	\$4.10	\$1.49	-\$2.54	\$0.95
FY 2001	\$102.21	\$99.84	\$90.61	\$100.52	\$114.82	\$109.63	\$121.05	\$105.38

Beyond the TOT, there was also a slight dip in May electric and gas Utility Users Tax (UUT) revenue, due to mild weather conditions, which affected usage. It is too early to determine if this trend will continue.

General Fund Expenditures

Savings continue to be generated through the hiring freeze and other expenditure reduction policies. Estimates include all known and anticipated expenses (Attachment 3). Current estimates remain relatively consistent with the April report. An \$890,000 increase in the pass-through of Motor Vehicle in Lieu fees dedicated to the Health Fund is reflected in the Citywide (XC) department's estimates in this report. This pass-through expense is

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completely offset by a projected increase in revenue from the State that was mentioned above. Additional expense has also been recognized in the Fire Department (\$625,000) for prior-year paramedic costs associated with skill pays included in the memorandum of understanding. This cost will be absorbed within the Fire Department (offset by savings in other Fire expenditure budgets).

▪ State Budget

The situation in Sacramento is changing daily. On June 20, the State Finance Director took action to pull the "VLF Trigger", returning the Vehicle License Fees to their previous 1998 levels. There is concern that VLF backfill payments to local governments will not continue during the 90-day period it will take for the new, higher VLF revenue to materialize. You will recall that when the VLF was reduced in 1998, the State kept local government whole by backfilling the revenue loss with State general funds. State staff does not anticipate the higher VLF revenue to begin flowing to the State for 90 days. If so, the loss to Long Beach during that 90-day ramp-up period could be as high as \$8 million if the State backfill is not continued.

Also of concern is an earlier proposal by the Legislature to take \$1.16 billion in undesignated funds from local government. The loss, which is calculated on a VLF per capita type formula, would be \$16 per capita or approximately \$7.7 million to Long Beach. The shift was initially proposed as one-time, but more recently has been talked about, in the Legislature, as a permanent, annual "hit" on local government.

The information coming out of Sacramento is confusing and changes daily. These losses would be devastating to Long Beach. Long Beach's Three Year Plan eliminates close to 500 positions over the next three years, but leaves most essential services, such as sworn police and fire positions, intact. A loss of the magnitude being proposed by the State may require that hundreds more positions be cut, something that would be extremely difficult to do without eliminating sworn positions.

Attachment 4 is a table provided by one of the City's consultants, which summarizes several State budget proposals as of June 30. No doubt these will change in the days ahead. Staff will provide updates as they are received. It is clear, however, that the best-laid plans of local government are being laid to waste by our State Legislators.

General Fund Balance

It is still anticipated that the \$11.7 million carryover target needed to balance the FY 04 budget will be achieved. However, this forecast is predicated on continuing to receive VLF revenue, as budgeted. If the backfill is not replaced with new revenue, a loss of \$8 million or more would essentially wipe out the projected carryover. Analysis of the General Fund, as well as other specified funds, is attached (Attachment 5).

Fiscal Year 2004 Projections

FY 04 revenue estimates are continually being reviewed and revised as economic conditions change. Most recently, interest earnings' estimates were reduced by over \$550,000 reflecting an estimated ¼ percent drop in the estimated interest earnings rate

(from 2.75% to 2.50%) which reflects the current economic environment. The Federal Reserve Board met on June 25 and lowered the Federal Funds Rate by 0.25 percentage points, to a 1.00 percent rate. This will likely result in a further reduction in short-term investment rates thereby resulting in less earnings for the City.

Insurance Fund Balance

The FY 03 ending Insurance Fund balance is expected to be approximately \$6 million, which includes an additional \$3 million in revenue from additional charges to departments in FY 03 and the elimination of a budgeted operating transfer to the General Fund. As explained in the April report, these efforts are being taken to address increasing insurance costs and rebuild the fund balance to support future liabilities. In consultation with the City Attorney and City Auditor, a multi-year plan will be developed to rebuild the Insurance Fund. The need for this plan will also be addressed in the soon to be initiated consultant study. In FY 04, as a first phase, charges to departments are budgeted to fully cover current Insurance Fund costs. The affect of these increased charges on programs, services and funds are currently under review. The consultant's recommendation will be taken into consideration in rebuilding reserves for FY 05 and beyond.

Conclusion

It was reported in the April report that higher workers compensation, liability and medical insurance costs, in addition to other operating costs (such as increases in equipment maintenance service contracts) would increase the projected FY 04 General Fund budget gap from the initial projection of \$52 million to a revised projection of \$59 million. Staff has been working feverishly on several initiatives that, if successful, could help bridge part of the growing gap until additional reductions can be identified, thereby avoiding more severe budget cuts.

Recent events with regard to State proposals to take millions of dollars of Long Beach revenues is, to say the least, discouraging. The State's inability, or unwillingness, to deal with its budget problems in an appropriate manner, by reducing costs and raising taxes, will result in significant changes to local government services throughout the State. Cities, including Long Beach, will no longer be able to provide the kinds of services that our citizens take for granted. Many of us have traveled to Sacramento to lobby and to testify in support of local government. Unfortunately, the group that stands to suffer the most, our citizens, have been largely silent throughout this political fiasco. There has never been a more desperate time for cities and counties.

If the State reduces local government revenues we will no longer be able to protect core services and will have to include potential closures of branch libraries, reductions in park programs (including youth and seniors) and reduced staffing for safety services.

TIMING CONSIDERATIONS

Council action on this matter is not time critical.

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FISCAL IMPACT

There is no fiscal impact associated with the recommended action.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Refer this report to the Budget Oversight Committee.

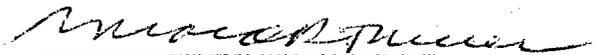
Respectfully submitted,



ROBERT S. TORREZ
Director of Financial Management

BT:tl
Attachments

APPROVED:



GERALD R. MILLER
CITY MANAGER